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Access To Bank Finance among SMMEs in A Developing Country: Does Gender Play A Role?

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ABSTRACT

Accessibility of funds to finance SMMEs is regarded as a key factor that contributes towards the success of businesses. Research, however, reveals that most owners of these ventures are confronted by several barriers in securing funds to run their businesses. Included in the factors is gender, whereby it is posited that woman business owners experience greater challenges than men owners in accessing financial capital. This research investigated whether men are more likely to secure loans than their woman counterparts, as well as finding reasons for the rejection of bank finance. It was found that a quarter of SMMEs applied for bank finance and that gender does not play a role is securing such finance. It also highlighted that lack of financial management knowledge have an impact on the approval of bank loans. Lack of collateral still features as the main reason for rejection of bank loan. It is recommended that banks become more involved in marketing their services to SMMEs and to educate SMMEs on financial management.

KEY WORDS: Finance, gender, SMMES, developing country.

INTRODUCTION

The small, medium and micro enterprise (SMME) sector is globally regarded as the driving force in economic growth of a country, playing a vital role in creating employment and wealth in any economy (International Finance Corporation, IFC, 2006). One of the main problems faced by SMME owners is the lack of access to bank finance. The inaccessibility of bank finance is a serious constraint during the start-up phase of new ventures, as well as at later stages, as businesses requires additional inflows of financial capital to support expansion and growth (Nieuwenhuizen and Groenewald, 2004). The limited access of SMMEs to credit and financial services has been identified as one of the most important supply constraints facing the SMME sector in South Africa (Fatoki, 2010).

Simrie et al. (2011) state that 75% of applications for bank finance by new SMMEs in South Africa is rejected. FinMark Trust (2006) provides evidence that only 2% of new SMMEs in South Africa (a developing country) are able to access loans from commercial banks. Thus, the extent to which the financial institutions, especially banks, understand and support the SMMEs starting and growing new businesses is a critical factor influencing entrepreneurship development and growth in nations of the world today.

According to Rahman et al. (2013), the financial market imperfections are particularly constricted for entrepreneurs in the SMME sector who have insufficient collateral, lack credit histories and networks. Most of the entrepreneurs in developing countries are women who are largely concentrated in survivalist or small businesses and, hence, are likely to face greater financial constraints. Thus, seeking ways to increase their ability to access funding - in order to develop and grow their businesses - is critical to achieving private sector growth. In addition, Rahman et al. (2013) highlight the fact that woman entrepreneurs face difficulty in securing start-up capital from conventional banking system, suggesting that gender has a direct bearing on the usage of financial services and bank shopping patterns.

A report from the IFC (2011) shows that in South Africa the ratio of men to women entrepreneurs is 6:1 as compared to 1:1 for countries such as Peru and Chile. Furthermore, the report states that women entrepreneurs make significant contributions to the economies of their country. It is commonly known that woman entrepreneurs face the same challenges that their men counterparts encounter. However, certain features are typical to woman-owned businesses. Specific reasons highlighted for this difference in men and woman entrepreneurial activity include: the tendency of women to desire spending more time with their children, the need to escape the pressure of employing many people, limited academic qualifications, and difficulty in accessing investment capital due to matrimonial labels (Kelley et al., 2009).

According to the (IFC) (2011), access to finance in South Africa is not the same across all race groups (African, coloured, Asian and white). Despite South Africa's progressive, constitutional and legislative framework that highlights the importance of gender equality, race group and gender remain important variables in the lack of access to finance, while black (African, coloured and Asian) women, in particular, experience great difficulties in accessing finance.

The IFC (2011) also established that women in business have better credit repayment records than men, yet they still find it difficult to raise finance when compared with male entrepreneurs. Some of these obstacles that place women at a disadvantage in accessing finance include: financial illiteracy, the role of credit bureaus and a lack of understanding of credit processes. An early report by the IFC (2006) maintains that, while access to resources such as financial services continues to be largely racially defined, the gender gap between men and women continues to persist, and is likely to grow, unless special efforts are undertaken to address the underlying issues.

Studies by Sokabo (2002) and Nieman et al. (2003) found that women entrepreneurs are more likely to indicate access to finance as a major barrier to developing their businesses. Women also tend to have less access to financial resources than men, as well as confronting issues of rights and voice. These differences may create a distortion and may result in a situation where women's economic activities are under-resourced and undercapitalised, thus reducing and inhibiting business and economic growth. Studies by the Organization for Economic Cooperation and Development (OECD) (2000), and Danmanville and Hurel (2001) reveal that women face barriers in obtaining debt financing through bank loans, and also encounter barriers to equity financing through venture capital and business angels.

Research has explored the assumption that the rejection rate of commercial bank loan applications may be higher for women than for men entrepreneurs and that woman entrepreneurs are being financed differently from their male counterparts in businesses (IFC, 2011). Women and men business owners differ in relation to their personal and business profile: they start and run businesses in different business sectors (service, retail or manufacturing), pursue different goals and structure their businesses in a different fashion (Verheul and Thurik, 2001; Fischer et al., 1993). Despite recent progress in the business environment, it is alleged that women encounter more barriers than men-owned businesses in accessing financial resources, which is critical at the different stages of business creation and development.

In summary, the evidence on whether women-owned businesses are disadvantaged in having access to financial capital is supported by many research studies. While some studies revealed gender discrimination, a number of studies state that differences can be explained by business characteristics rather than gender (Coleman, 2000; Orser, Hogart-Scott and Riding, 2000). While these results may be generalized for developed countries, they may not necessarily apply to the case of women business owners in developing nations such as South Africa. However, anecdotal evidence does suggest that issues of sex discrimination exist, thus indicating a need to accumulate more knowledge in this area (Brush et al., 2006). The point of departure from existing studies is to determine to what extent gender has an effect in accessing financial capital with reference to a developing country, South Africa. There is a scarcity of research in the field of gender and finance in South Africa, especially after 1994 when South Africa became a democratic nation. This researcher conducted a comparative analysis of women entrepreneurs and men entrepreneurs in the retail and service businesses, using a matched sample. The research study sheds more light on the influence of gender on access to bank finance and adds to the current debates from the perspective of a developing country.

The following sections will provide a review of previous studies, research methodology, results and discussion, conclusion, recommendations, limitations and future research.

LITERATURE REVIEW

Various theoretical models or frameworks on the financing of businesses are extant, starting from the traditional concept of Modigliani and Miller (1958) regarding the financial behaviour of business. The different theories developed since then seek to explain such behaviour, taking into account the characteristics and problems of the business. However, most of the existing theoretical models or frameworks address the needs of big businesses. Finance falls under the capital structure theory which was initially developed for the large listed companies (Rajan and Zingales, 2000) and may be applicable to small businesses.

Some specific capital structure considerations, however, cannot be fitted into the SMMEs context. For example, Pettit and Singer (1985) state that tax considerations in corporate capital structures are of little importance to

SMMEs, since they are less likely to generate huge profits, let alone filing tax returns, and are, therefore, less likely to use debt for tax shields. Thus there is no specific theory in the area of finance addressing the financing structure of SMMEs. Petitt and Singer (1985) suggest that the predicted differences between the financing of small and large businesses should be developed from the same body of financial theory. However, this theory must also be general enough to address the financial needs of small businesses. In general, financing theory falls under the category of capital structure, which includes the mix of debt finance and equity finance.

Access to financial resources or capital are the major factors enabling small businesses to innovate, grow and create employment. But with larger companies, the case is different, as growth, geographic expansion and new product development are often funded by selling shares or bonds, alternatives which are not generally available to SMMEs. Research has revealed that banks are a major source of external capital for small firms. Using the 1993 National Survey of Small Business Finances, Cole and Wolken (1995) found that banks, in a developed country, provided about sixty percent of the dollar value of credit used by businesses in the survey. Furthermore, a study by the National Foundation of Women Business Owners (1998) reveals that black women entrepreneurs have greater difficulty in securing capital than their counterparts in other ethnic groups. It was found that 38% of black women business owners had bank credit, compared with 60% of their white counterparts.

Bigstein et al. (2003) assert that about 90% of small businesses are refused loans from formal financial institutions due to their inability to fulfill conditions, such as providing collateral. For small businesses, regardless of gender, bank lending is the most important overall source of external funding (Berger and Udell, 2006; Marlow and Patton, 2005). In a developed nation, such as the United Kingdom, bank loans are the predominant source of SMME finance (Fraser, 2004). From a financial management point of view, it is assumed that business owners adopt a “pecking order” of financing preferences, where they prefer to use personal finance and funding from family and friends, then banks, before approaching equity investors (Howorth, 2001).

Empirical findings in developed countries show that women-owned businesses have lower start-up capital (Verheul and Thurik, 2001; Rosa et al., 1994; Apilado and Millington, 1992), are less likely to source external financing (Coleman, 2000; Haynes and Haynes, 1999; Coleman and Carsky, 1996; Cole and Wolken, 1995) and use various sources for business financing than men-owned businesses (Lerner et al., 1997; Hisrich and Brush, 1987). Some of the reasons cited for the difficulty in accessing bank finance include: the small size of most women-owned firms (Coleman and Carsky 1996; Riding and Swift 1990), lack of financial sophistication (Brush 1992; Loscocco and Robinson 1991, Hisrich and Brush, 1984), risk aversion (Olsen and Currie, 1992), and possible gender discrimination (Brush, 1992).

Furthermore, The National Foundation of Women Business Owners (1996) reports that women business owners were slightly less likely than men business owners to use bank credit. However, the real distinction regarding credit usage came with the size of the business; only one third of the smallest businesses used any type of bank loan. These findings were similar to the results obtained by Coleman and Carsky (1996), who found that women-owned businesses were significantly less likely to use external financial capital than men-owned businesses. The authors also concluded that women-owned businesses may be less attractive to banks and other potential creditors, as they operate small businesses and are viewed as being more risky.

Early studies by Buttner and Rosen (1992) on bank lending did not find evidence of discrimination in the lending process of men and women-owned businesses. Studies conducted on Canadian firms found that women were required to put up more collateral than men (Riding and Swift, 1990). In a later study involving a large number of Canadian small businesses, Fabowale et al. (1995) found no gender differences in loan approvals or terms of credit, but they did find that women reported being less satisfied than men with their banking relationships.

Arenius and Autio (2006) asserts that women-owned businesses are often self-financed and are more likely to have sourced financing from relatives than men-owned businesses. Some studies have also argued that women-owned businesses are less likely to use external financing (Coleman, 2000; Haynes and Haynes, 1999; Coleman and Carsky, 1996; Cole and Wolken, 1995). Furthermore, a study by Treichel and Scott (2006) found that women-owned businesses face systematic and non-economic discrimination when applying for bank loan.

Lenders of finance, such as commercial banks, prefer borrowers who have a track record of profitability, established businesses, and assets that can be used as collateral (Cole and Wolken, 1995; Ennew and Brinks, 1995). Hence, women-owned businesses that fail to meet these requirements may be at a relative disadvantage. Literature also reveals that women-owned businesses are, in fact, smaller in size, newer and less profitable than men-owned businesses (Coleman and Carsky 1996; Riding and Swift 1990). Buttner and Rosen (1992) and Fabowale et al. (1995) noted that, while there was no evidence of differences in access to bank loan between men and woman entrepreneurs, women were more likely than men to report feelings of being treated disrespectfully by financial institutions. Thus, it can be assumed that these quite negative representations and feelings of women entrepreneurs towards bank financing may also discourage them from even applying for a bank loan. Research has also shown that woman 'would-be' and existing entrepreneurs tend to have negative perceptions about their chances of success in applying for external funding, particularly from banks (Roper and Scott, 2007; Carter et al, 2007). The reasons for this include, amongst others, inadequate collateral, sexual stereotyping, lack of business track record, and perceived credibility problems with financial institutions.

Women tend to operate in the retail trade or services which are less capital-demanding than manufacturing or transport, and which may not have assets that can be used as collateral (Puri, 2004). As indicated earlier, women also prefer to rely mostly on personal or relatives' savings rather than going into debt, as debt-risk aversion is stronger among women than men (Sexton and Bowman 1990). In brief, it would appear that lenders discriminate on the basis of firm size, preferring to lend to larger and, one would assume, more established businesses.

Women business owners may also be more likely to attribute problems to discrimination than do men. In their study, Buttner and Rosen (1992) state that men-owned businesses are more inclined to attribute a bank's refusal to weaknesses in the business plan or the economic climate, whereas women-owned businesses may attribute refusal to gender bias.

Thus, considering the literature in the field of gender and finance, there have been many mixed findings on access to bank financing. Most of the studies were conducted in the developed nations and it would be of interest to stakeholders to determine whether gender is related to the approval of bank application in a developing nation, such as South Africa. Thus, this study aims to investigate whether gender plays a role in accessing bank finance, with the following objectives:

1) To investigate whether men are more likely than women business owners to secure bank finance.
2) To determine the reasons for rejection of bank finance.
3) To establish whether human capital (education, knowledge of financial management and business training) is linked to success of bank finance applications.

RESEARCH METHODOLOGY

This study focussed on businesses operating in the service and retail sectors in the City of Cape Town of South Africa. These sectors were chosen as the study intended to investigate women business owners in the environment where they are most likely to be found. Focusing on these sectors enabled the researcher to make meaningful comparisons between business owners across gender. SMMEs where the owner did not have a controlling ownership of the business were excluded, as the study required the majority owner herself/himself would be involved in the daily routines of the business.

The absence of a register of businesses meeting the criteria set in the present study was not available and, hence, SMMEs had to be chosen randomly. The target population, being women and men owned small business, for the survey was sourced from the main trading areas of the City of Cape Town. Targeted were businesses, with fewer than two hundred employees, that fall within the SMME classification of the Department of Trade and Industry of South Africa (DTI, 2008). The questionnaire was scrutinized by two academics and piloted with 10 entrepreneurs before being administered to the final sample. Research assistants were trained to administer the survey, using a questionnaire, which had questions in the form of 'closed' responses that were posed to business owners during face-to-face interviews.

All respondents received exactly the same questionnaire and furthermore, in the accompanying letter to them, no reference to a comparison between women- and men-owned businesses was made in order to avoid perceptual bias in responses. Respondents were contacted and arrangements were made to obtain the necessary information that was required in the questionnaire. Due to some SMME owners not making the appointment, questionnaires were dropped off at the business and collected a week later.

1020 SMMEs were targeted and 504 questionnaires were returned within three months. A total of twenty three of the questionnaires had to be excluded from the final analysis since they did not meet the selection criteria. Thus, 481 questionnaires were usable, indicating a response rate of 47%.

Content of the Questionnaire and analysis

This study sought to provide insight into whether gender plays a role in accessing bank finance in a developing nation. Business owners were requested to indicate the number of the different type's external financing sources for the business and whether the business had secured financing from the following sources: banks, own savings, family and friends, suppliers' credit (inventory), lease and external equity. Further, the business owner was asked to make a subjective assessment on reasons for rejection of loan application. Various questions pertaining to human capital variables, such as education level, business training, and management experience were probed, as these may have an influence on securing business finance.

Exploratory data analysis was used as an initial assessment of the individual variables. A descriptive analysis was conducted and the data presented in the form of percentages. In addition, chi square analysis was used to investigate for associations amongst the variables.

RESULTS AND DISCUSSION

This section presents the results from the research. It shows the results of the profile of the respondents, the business and the financing of the business from a gender perspective. The study used a matched sample: similar numbers of men and women owners were used. Table 1 summarizes the profile of the business owners.

Table 1: Profiles of respondents

	DEMOGRAPHICS	
	Men	**Women**
Total	49%	51%
Education:		
Below Grade 12	17%	16%
Grade 12	34%	29%
Diploma (non-HEI)	8%	10%
Diploma (HEI)	16%	26%
Degree	15%	13%
Post graduate	23%	25%
Business training	51%	49%
Knowledge of Financial Management		
Below average	56%	55%
Average	39%	40%
Above average	5%	5%
Age of business		
0-3 years	25%	32%
4-10 years	38%	33%
>10years	37%	35%
Number of employees		
1-5	54%*	62%*
6-20	34%*	30%*
21-50	11%*	7%*
>51	1%	3%

*p< 0.05 :significant difference across gender

The sample comprised 49% men and 51% women business owners. Although not significant, woman business owners were more highly qualified than men business owners, supporting the findings of the study by Cowling and Taylor (2001). 62% men and 74% women had a post grade 12 qualification. About 50% of the respondents had some sort of business training and there was no difference across gender. More than half of the respondents rated themselves as having below average knowledge of financial management. This is of great concern, considering the fact that many businesses fail due to lack of cash flows. Of those respondents who rated themselves above average in the knowledge of financial management, 42% applied for bank loan and 65% of them were successful. Similarly, of those who rated themselves average or below average in financial management, 31% applied and 55% were successful in their bank loan application. More women than men (32% versus 25%) were less than 3 years in operation. From the results, it can be inferred that more women are becoming entrepreneurs. In terms of size of business, there was a significant difference across gender. Women-owned businesses were smaller in size than men-owned businesses, as evidenced by the number of employees. It is, therefore, concluded that woman-owned businesses are significantly smaller and younger than men-owned businesses, supporting the findings of Orser and Hogart-Scott (2002); Cliff (1998); Riding and Swift (1990). The difference can be due to many woman owners purposely choosing to keep their businesses small (Cliff, 1998).

Unlike the men counterparts, woman business owners have to cope with domestic responsibilities when they start a business and are, thus, more likely to face conflicting demands between their business and domestic lives. Further comparisons on gender indicate that men tend to place a greater emphasis on economic values and quantitative, non-ambiguous measures of achievement of success, such as status and wealth whereas women tend to assign more importance to social values and qualitative, ambiguous measures of achievement and success, such as personal fulfilment and strong interpersonal relations (Cliff, 1998).

Finance and gender

The various categories, such as sources of finance, whether respondents applied for bank finance, purpose of the loan application and reasons for rejection of bank loan across gender were investigated. Table 2 provides the summary results. In total, 23% of the SMMEs applied for a bank loan in the most recent application for finance.

Table 2: Summary of finance variables versus gender

	FINANCE	
	Men	**Women**
Highest source		
Own savings	57%	60%
Family and friends	22%	18%
Bank loan	13%	12%
Most recent source		
Bank	39%	32%
Lease	4%	3%
Supplier	13%*	6%*
Equity	4%	6%
Family and friends	13%*	28%*
Other	28%	26%
Applied to bank	22%	26%
Success in bank	60%	60%

application		
Purpose of loan		
Fixed asset	78%	79%
Working capital	22%	21%
Reasons for rejection of bank application		
Lack of collateral	35%	31%
*p< 0.05: significant difference across gender		

The highest source of finance in starting a business was from savings, accounting for about 60% of the total respondents; 60% of women compared with 57% men. However, the most recent source of finance was from the bank, accounting for 39% men and 32% women. A significant amount of women compared to men (28% versus 13%) sourced the most recent funding from family and friends, supporting the findings by Coleman (2000), who found that women are less likely to use external sources of financing. There was also a significant difference between men and women being funded by supplier finance (13% versus 6% for men and women, respectively). This is an interesting finding with regards to supplier financing across gender.

Slightly more women than men (26% versus 22%) applied for bank loans and both groups were equally successful, 60% being successful, not supporting the results of Storey (2004) and Rob and Wolken (2002), who found that women are less likely to apply for bank loans than men, revealing lower application rates. This study also does not support the findings by Coleman (2000); Haynes and Haynes (1999); Coleman and Carsky (1996), in terms of gender discrimination in bank loan approval. The main purpose of the loan was for purchase of fixed assets, accounting for 78% of the respondents. Further analysis revealed that business training and education were not associated with approval of bank loans. The main reason for rejection of bank loan was lack of collateral. The study also found that the main obstacle in operating the current business was cash flows.

CONCLUSION

The aim of this study was to provide insight into the financing of SMMEs across gender. The education levels were similar across gender. Woman business owners were younger and operated smaller businesses than men owners. The highest source of finance was from family and friends, which was similar across gender. However, the most recent source of finance differed across gender; a higher proportion of men than women were financed by banks and supplier of goods. Significantly more women than men were financed by family and friends in their most recent source of finance. About a quarter of the SMME owners applied to the bank for a loan on starting the business and the success rate was the same across gender. The main reason for rejection of bank loan was lack of collateral. Knowledge of financial management was linked to approval of bank finance. However, education level and business training were not significant factors in securing bank finance.

RECOMMENDATIONS

The low application for bank finance should be a signal for banks to re-consider their lending criteria and attract more SMMEs as clients if they want to increase their exposure to SMMEs. However, it is a concern that the majority of businesses were starting up with (only) personal savings and that many people with sound business ideas are giving up simply because of the difficulties in raising the finance to start and grow their businesses, thereby not creating more employment. Banks should therefore devise strategies for SMMEs to increase the usage of bank finance and to educate owners of SMMEs in financial management. Training and communication on the criteria set by banks for loans can better prepare SMME owners for the application process and, thus, improve their access to bank finance. Commercial banks could create awareness of their funding requirements, especially the importance of collateral, through advertisements and communication with business networks. Finally, women-owned businesses that do not apply for a bank loan for fear of being turned down should note that there is no difference in the success rates across gender.

LIMITATIONS AND FUTURE RESEARCH

The research design contains certain inherent limitations. Since only small businesses were studied, the findings of this study cannot be generalized to large businesses. Since this study covered individuals who have successfully started and now have a business banking relationship, it does not capture the problems faced by people who were unable to raise the finance needed and never actually started up. The sampling frame is also a potential source of survivor and selection bias. The study did not consider businesses that failed.

Future research should establish why the application rates by SMMES to banks are low. Research should also evaluate the lending criteria by banks and to establish whether bank personnel are suitably qualified to make decisions on business finance. It will also be beneficial to establish why there is a difference in the use of the most recent source of finance across gender.

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