Vol. 4, No. 09; 2020

ISSN: 2456-7760

FEMALE ENTREPRENEURS AND FINANCIAL CAPITAL IN DEVELOPING ECONOMIES: THE CASE OF NIGERIA

Umar Lawan, PhD

Department of Business Administration
Yobe State University, Damaturu

Abstract

Among the categories of critical resources that influence the development of businesses is financial resource, comprising the money assets and cash of the business. The aim of this study is to review the approaches adopted by Nigerian female entrepreneurs in financing their businesses. Qualitative interviews were used to collect data from purposively selected female entrepreneurs. The data gathered was analysed using thematic method. The study found that most female entrepreneurs use both debt and equity as their capital structure, but they try to maintain a very minimal debt profile. The study also found that the discrimination faced by women entrepreneurs from financial institutions when seeking business finance is primarily gender related, demand for higher collateral, high interest rates and a lack of information. The financial institutions also doubt the ability of female entrepreneurs to meet some of the conditions set by the banks, particularly the provision of business plans. The study recommends that more awareness should be created among female entrepreneurs regarding financing services and programmes.

Keywords: Finance, female entrepreneurs, Business growth, developing economies

Introduction

Female participation in the workforce has continued to accelerate around the globe (Robichaud et al., 2007; Baharul-Islam, 2009). This trend has been accompanied by a steady increase in the level of female entrepreneurship (Jamali, 2009). For instance, in Argentina female entrepreneurial activity raised from 5.7 percent in 2001 to 9.0 percent in 2004 then further to 11.4 percent in 2009. The trend is also obvious in Brazil, Japan and the Netherlands, where the number of female entrepreneurs grew by 7.6 percent, 0.4 per cent and 3.1 percent between the period of 2001 and 2009 respectively. (See Table 1 below).

Table 1: Total Early-Stage Entrepreneurial Activity for Female Working age Population.

COUNTRIES	2008	2010	2012
Argentina	5.7	9.0	11.4
Brazil	8.2	11.3	15.8
Japan	1.1	1.2	1.5
Netherlands	2.8	3.1	5.9

Source: Global Entrepreneurship Monitor (GEM)

Despite the aforementioned growing interest and increase in female entrepreneurial activities in recent years, Verheul el al, (2006); Langowitz and Minniti (2007); and Pines et al., (2010) noted that the rate at which female owned businesses grow is lower than that of their male counterparts. Furthermore, Pines et al., (2010) found that women's entrepreneurial inferiority

Vol. 4, No. 09; 2020

ISSN: 2456-7760

ensues largely from economic exclusion/inequalities. Therefore, access to business finance is seen as one of the ways to redressing the gap by providing opportunity to attain economic independence and equality (Runyan et al., 2006; Umemezia and Osifo, 2018).

Despite the importance of finance in the growth and success of women businesses, research has paid little attention to how female led businesses acquire and utilized financial resources (Richard et. al, 2019). To fill in this gap, the study focuses on the approaches Nigerian female entrepreneurs adopt to financing their businesses. This follows the fact that women are mainly engaged in various entrepreneurial activities related to agriculture (Halkias et al., 2011), manufacturing, processing and service industries (Ehigie and Umoren, 2003), and are most vulnerable to business growth and sustainability related issues (Adewunmi, 2009). Therefore, while enhancing entrepreneurship in developing economies, recognising women as prime actors and acknowledging their intellectual and physical contribution in the process is a critical step if their entrepreneurial potentials can be promoted for both economic and social development (Rita et al. 2017; Etim and Iwu, 2019;).

2.0 Female Entrepreneurs and Financial Capital

The ability of female entrepreneurs to access business finance has been a subject for debate and research in developed countries. The question whether or not female entrepreneurs are relatively disadvantaged in terms of access to equity finance has been considered in a number of contexts (Carter et al., 2003; Orser et al., 2006; Kwong et al., 2012). The studies generally agree that the share of the equity finance invested in female owned businesses has increased over the past years few, yet there remains a significant difference between the proportion of female and male entrepreneurs that have obtained equity finance. For instance, Brush et al. (2002) reported that female owned businesses account for approximately 40 percent of US firms, yet less than 5 percent of the venture capital investment made over the past 40 years in the US go to female owned businesses. Similarly, Carter (2009) documented that 0 percent of female led businesses had used new equity capital in the UK in the past 3 years. Similar results have been reported in other countries (see for example, Industry Canada, 2005). Previous studies also suggest that female entrepreneurs may be less likely to seek external equity than male entrepreneurs. For instance, Kwong et al. (2012) found that female entrepreneurs are more likely than their male counterparts to use internal sources of finance such as family and friends or personal savings rather than external sources of finance.

On the other hand, it is found that female entrepreneurs typically use a lower ratio of debt financing when starting and running their businesses. A study of female and male matched businesses reported that the volume of bank loans borrowed by female owned businesses was only 77 percent of that borrowed by male owned businesses (Kwong et al., 2012). It is also established that female owned businesses significantly sought a lower amount of finance. In this regard, a survey of approximately 19,000 firms in the UK found that female owned businesses were most likely to use their personal credit card, personal savings, their family and other business and least likely to use a bank overdraft (Carter, 2009). Moreover, Orser et al., 2006 found that fewer female entrepreneurs, relative to male entrepreneurs applied for a bank loan.

ISSN: 2456-7760

This is because female entrepreneurs have fewer tendencies to apply for a bank loan due to the belief that they would not be able to gain it (Kwong et al., 2012). Some of these female business owners may be "discouraged borrowers", that is, good borrowers who do not apply for a bank loan because they feel their application will be rejected (Orser, 2006). Other barriers responsible for lack of adequate access of financial capital by female entrepreneurs include rigid lending policies, inherent gender bias, absence of networks, financial illiteracy, inability to build a credit rating and limited experience in dealing with financial institutions (Orser, 2006).

3.0 Theoretical/Conceptual Framework

Key constructs identified are used to review the approaches adopted by Nigerian female entrepreneurs in financing their businesses as shown in Table 3.1.

Table 3.1: Female Entrepreneurs and Financial Capital related theories, concepts and studies

Author	Theory/Concepts/Study	Application to the research
Orser et al. (2006)	Postulate that there is a significant disparity between the proportion of female-owned firms and the percentage of female-owned businesses that have obtained equity capital.	Exploration of the capital structure of Nigerian female entrepreneurs.
Orban (2001)	Supposition that businesses owned by female entrepreneurs received less favourable debt financing treatment than male-owned firms.	
Kwong et al. (2012)	Argument that female entrepreneurs showed a preference for internal versus external equity financing.	
Carter (2009)	Argument that the majority of female entrepreneurs face difficulties in obtaining sufficient and affordable financial capital to develop their business.	Identification of the barriers Nigerian female entrepreneurs face in obtaining business finance.
Carter et al. (2003)	Argument that female entrepreneurs may seek equity financing from sources other than institutional venture capital funds.	Identification of the financial support Nigerian female entrepreneurs are having in developing their businesses.

Source: Compiled by the author

Among the categories of critical resources that influence the development of businesses is financial resource, comprising the money assets and cash of the business. Obtaining the necessary financial capital to develop a business is considered one of the biggest problems faced by female entrepreneurs. Financial capital can be acquired from many sources including both equity and debt. Drawing on each of these sources of finance has different implications for the business venture and the business owner. The choices of an appropriate capital structure and the easy access to business finance are widely acknowledged as important factors in business development. Other theories and concepts, in particular, relating to the third pillar of institution (the cognitive pillar) adopted in this study are presented in the following section.

4.0 Methodology and Methods

This study adopts qualitative method in order to understand the approaches Nigerian female entrepreneurs adopt in financing their businesses. Qualitative research involves a systematic collection, organization and interpretation of written material derived from observation or talk (Malterud, 2000). It is an investigation process of understanding a human or social problem as experienced by individuals themselves in their natural environment (Malterud, 2000). There are several methods available for qualitative data collection. These include participant observation, interview and document review and focus group among others. An interview was selected to serve as a research instrument in this study. Qualitative interviews seek to describe the central themes of the subject's world-view, and it is useful in obtaining the story behind the experience of the participants (Kvale, 1997; McNamara, 1999). Interviewing was also described as a superior instrument for data collection because people are more prepared to talk than to write (Yin, 2003; Neuman, 2006). Moreover, if a question is misunderstood by the research participant, the interviewer can either put the question in a form that can be understood by the respondent or repeat the question (Kumar, 2005).

The population of the study is female entrepreneurs in Nigeria. The cities of Abuja, Kano and Lagos were chosen as the study area. Of particular importance to the study is the fact that Kano is the commercial centre of the northern region and thus female entrepreneurs start and operate different types of businesses. The same applied to Lagos; it is the business hub for the southern states, and female entrepreneurs use the opportunity to establish businesses in various sectors of the economy. Abuja is the federal capital of Nigeria; it has a mix of residents made up of politicians, civil servants, students and expatriates. This makes the city a very viable location where female entrepreneurs start and grow businesses.

Female entrepreneurs were purposively selected to serve as respondents. The database of female entrepreneurs in the study area was obtained from the Kano state Ministry of Commerce and Industry, Women Entrepreneurs Association of Nigeria (WEAN) Lagos state chapter and Network for Nigerian Entrepreneurial Women (NNEW) Abuja branch. The data collected from sixty seven (67) female entrepreneurs in this study was analysed using a thematic method. Thematic data analysis is a technique for identifying, analysing and reporting differences and commonalities in qualitative data in detail with a view to focusing on the relationships between different parts of the data (Gale et al., 2013). It also goes further to interpret the various aspects of the research area or topic (Braun and Clarke, 2006).

5.0 Results and Discussion

The current study found that most female entrepreneurs use both debt and equity as their capital structure, but they try to maintain a very minimal debt profile. There are several explanations for this result. First, female businesses may find it comparatively costlier to resolve informational asymmetries with financiers and lenders. As a result, female businesses are offered capital at significantly higher costs or are offered less capital that discourages the use of external finance. The second explanation for female businesses having lower debt or less external financing is that if the risk of operation is inversely related to the size of the business, this should incline female businesses to use relatively less external financing and debt. Third, female entrepreneurs who have access to retained earnings can use them to finance their business rather than accessing external sources. Although more profitable businesses would be more likely to get access to such funds, these businesses will prefer internal sources to finance their investments and operations.

On the question of the barriers faced in accessing financial capital for business development, the findings of the current study are consistent with those of Fay and Williams (1992), Haynes et al. (2000) and Orban (2001) who found that the discrimination faced by women entrepreneurs from financial institutions when seeking business finance is primarily gender related, demand for higher collateral, high interest rates and a lack of information. The financial institutions also doubt the ability of female entrepreneurs to meet some of the conditions set by the banks, particularly the provision of business plans. A possible explanation of this might be that loan offers often receive many funding requests, and proposals must be screen based on a business plan alone. Studies have shown that in circumstances where a decision is needed, and the information is incomplete or ambiguous, decision makers may fall back on stereotype (Buttner and Rosen, 1989). As the business plan only provides a brief biography of the entrepreneur and the outline of the business venture, loan officers may be more likely to fall back on gender stereotypes. Perception of females lacking the qualities of successful entrepreneurs is common among loan officers (Orban, 2001).

Another barrier identified by women business owners is associated with the nature of enterprises run by female entrepreneurs. Usually, female businesses are not only established in the informal sector, but they are engaged in the kind of business activities that are relatively less capital intensive. Consequently, female entrepreneurs are reluctant to seek bank loans. This finding is in agreement with the Orban (2001) findings, which showed that women business owners often initiate small business ventures in accordance with their personal savings, interest and personal qualifications. These types of business do not regularly show a significant level of growth; therefore, no matter what the gender of the entrepreneur, bankers, and other financial institutions may be unwilling to offer loans to such ventures because of the expectations of little profit and higher lending risks (Orban, 2001). On the other hand, entrepreneurs who engage in businesses like hairdressing, dressmaking, and petty trading may themselves be disinclined to borrow small amounts of money, as the interest rate may be substantially higher in comparison to larger corporate businesses.

The current study found that apart from financial support from family and friends, only a few of the female entrepreneurs in the study benefited from a soft loan from the Nigerian Bank of Industry and YouWin programme. It seems possible that this result is due to the recent launch of the Public Works and Women/Youth Empowerment Scheme (PW/WYE) by the Federal Government of Nigeria. To support the programme, some percentage of the partial subsidy removal proceeds on petroleum prices was set aside by the government to fund the intervention with a view to generating employment nationwide.

6.0 Conclusion and Recommendations

Among the categories of critical resources that influence the development of businesses is financial resource, comprising the money assets and cash of the business. Obtaining the necessary financial capital to develop a business is considered one of the biggest problems faced by female entrepreneurs. It is recommended that a reasonable approach to solve the financing issue could be a provision for financing guide for female entrepreneurs, designed to convey basic information to businesses owned by women in terms of credit negotiation, preparing financing proposals, terms and conditions, and sources for finance. It is also recommended that the guide should be written in both English and local languages (Hausa, Yoruba and Igbo) and distributed all over the country, perhaps through partnership with associations of female entrepreneurs. The goal is to pass the message across businesses owned by women with a view to improving their ability to source business finance.

References

ADEWUMI, A. A. 2009. Nigerian Women Agro-entrepreneurship Development: Issues and Challenges, available at: www.articlebase.com/print/717203 (accessed March 01, 2015).

BAHARUL-ISLAM, K. M. 2009. Rural Entrepreneurship far Women: A Case for Wealth Creation by Africa's Rural Poor amidst Global Financial and Economic Crises, available at: www.afdb.org/... (accessed March 01, 2015).

BRAUN, V. and CLARKE, V. 2006. Using thematic analysis in psychology. Qualitative Research in Psychology, 3 (2). pp. 77-101. ISSN 1478-0887 Available from: http://eprints.uwe.ac.uk/11735

BRUSH, C., CARTER, N., HART, M. and GATEWOOD, E. 2002. The role of social capital and gender in linking financial suppliers and entrepreneurial firms: A framework for future research. *Venture Capital*, 4(4), pp. 305-323.

BUTTNER, E. H. and ROSEN, B. 1989. Funding New Business Ventures: Are Decision Makers Biased Against Women? *Journal of Business Venturing*, 4: pp. 249-261.

CARTER, N., BRUSH, C., GREENE, P., GATEWOOD, E. and HART, M. (2003). Women Entrepreneurs Who Break Through Equity Financing: The Influence of Human, Social and Financial Capital, Venture Capital. *International Journal of Entrepreneurial Finance*, Vol. 5(1), pp. 1-28.

CARTER, S 2009. *Access to Finance*. National Policy Centre for Women's Enterprise, Evidence Paper.

EHIGIE, B. O. and UMOREN, U. E. 2003. Psychological Factors Influencing Perceived Entrepreneurial Success Among Nigerian Women in Small-Scale Business, *Journal of International Women's Studies,* 5(1), 78-95.

ETIM, E and IWU, C. G. 2019. A descriptive Literature Review of Continued Marginalization of Female Entrepreneurs in Sub-Saharan Africa, International Journal of Gender Studies in Developing Societies, Vol. 3(1), pp. 1-19.

ISSN: 2456-7760

FAY, M. and WILLIAMS, M. 1992. Gender Bias and the Availability of Business Loan. *Journal of Business Venturing*, 8(1), pp. 363-376.

GALE, N. K., HEATH, G., CAMERON, E. and REDWOOD, S. 2013. : Using the framework method for the analysis of qualitative data in multi-disciplinary health research. *BMC Medical Research Methodology*, 13:117.

GEM (2012). Women's report, Available: www.babson.edu/Academics/gem

HALKIAS, D., NWAJIUBA, C., HARKIOLAKIS, N. and CARACATSANIS, S. M. 2011. Challenges Facing Women Entrepreneurs in Nigeria, *Management Research Review*, Vol.32 (2), pp.221-235.

HAYNES, G. W., ROWE, B. R., WALKER, R. and HONG, G.S. 2000. The Difference in Financial Structure Between Men and Women-owned Family Business, *Journal of Family and Economic Issues*, Vol. 21(3), pp. 209-226.

INDUSTRY CANADA 2005. Summary report from sustaining the momentum. *An economic forum on women entrepreneurs*. Ottawa, Canada: Sprott School of Business and Industry Canada.

JAMALI, D. 2009. Constraints and Opportunities Facing Women Entrepreneurs in Developing Countries, A Rational Perspective, *Gender in Management: An International Journal*, 24(4), 232-251.

KUMAR, R. 2005. *Research Methodology, A Step-By-Step Guide for Beginners*. 2nd edn, Sage Publication, London.

KVALE, S. 1996. *Interviews: An Introduction to Qualitative Research Interviewing*. Sage Publications.

KWONG, C., JONES-EVANS, D., and THOMPSON, P. 2012. Difference in perceptions of access to finance between potential male and female entrepreneurs. *Journal of Entrepreneurial Behaviour and Research*, 18(1), pp. 75-97.

LANGOWITZ, N. and MINNITI, M. 2007. The Entrepreneurial Propensity of Women, *Entrepreneurship Theory and Practice*, 31(3), 341-364.

MALTERUD, k. 2000. Qualitative research: standards, challenges, and guidelines. *Qualitative research series*, 358: pp. 483-488.

MCNAMARA, C. 1999. *General Guidelines for Conducting Interviews*. Minnesota.

NEUMAN, L. 2006. *Social Research Methods: Qualitative and Quantitative Approaches, 6th ed.* Pearson, Boston.

ORBAN, M. 2001. Women Business Owners in France: The Issue of Financing Discrimination. *Journal of Small Business Management*, vol. 39(1), pp.95-102.

ORSER, B. J., RIDING, A. L. and MANLEY, K. 2006. Women entrepreneurs and financial capital. *Entrepreneurship Theory and Practice*, 30(5), pp. 643-665.

PINES, A. M., LERNER, M. and SCHWARTZ, D. 2010. Gender Differences in Entrepreneurship: Equality, Diversity and Inclusion in Times of Global Crisis, *Equality, Diversity and Inclusion: An International Journal*, 29(2), 186-198.

Richard, A. D., Gonzalo, M. Micheal, R. H. and Terjesen, S. A. 2019. Female-led High Growth: Examining the Role of Human and Financial Resource Management, Journal of Small Business Management, Vol. 57(1), pp. 81-109.

RITA, M. R., WAHYUDI, S. and MUHARAM, H. 2017. The dynamic of female entrepreneurs in fullfilling their financial needs. Demand Side Entrepreneurial Finance Perspective of Small and Medium-sized Enterprises, *Journal of Applied Economic Sciences*, Vol. XII, Issue 8(54), pp. 2351-2367.

ROBICHAUD, Y., ZINGER, J. T. and LEBRASSEUR, R. 2007. Gender differences within early stage and established small enterprises: An Exploratory Study. *International Entrepreneurship and Management Journal* 3:323-343.

RUNYAN, R. C., HUDDLESTON, P. and SWINNEY, J. 2006. Entrepreneurial Orientation and Social Capital as Small firm Strategies: A Study of Gender Differences from a Resource-Based View, *Entrepreneurship Management*, 2:455-477.

UMEMEZIA E. and OSIFO, S. J. 2018. Microfinance and Female Entrepreneurship in Nigeria, *DBA Africa Management Review*, Vol. 8(1), pp. 34-43.

VERHEUL, I., STEL, A. V. and THURIK, R. 2006. Explaining Female and Male Entrepreneurship at the Country Level, *Entrepreneurship and Regionl Development: An International Journal*, 18(2), 151-183.

YIN, R. K. 2003. *Case Study Research: Design and Methods 3rd edn*. Sage publication, Thousand Oaks, Califonia.