

## AN EVALUATION OF THE EFFECT OF GENDER ON FINANCING OF FEMALE-OWNED SMALL AND MEDIUM ENTERPRISES IN ZIMBABWE

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### ABSTRACT

**Purpose-** The greatest challenge to Small and Medium Enterprise growth and sustainable development as highlighted by female entrepreneurs, is access to financing. The purpose of this paper is to explore whether the major cause of female entrepreneurs' failure to access financing is their gender, and if so to what extent.

**Design/methodology/approach-** The study follows a quantitative and qualitative approach employing the use of both semi-structured questionnaires and interviews to ascertain the relationship and interplay between financing challenges and gender from the **entrepreneur's** standpoint.

**Findings-** Contrary to common thought gender does not affect female entrepreneurs access to finance, rather what determines and influences access to finance are owner and firm-level characteristics.

**Practical implications-** Instead of trying to address the gender issue, policy must be targeted at developing business skills of female entrepreneurs and to encourage them to venture into traditionally male dominated sectors which increases their access to financing.

**Keywords** female, profitable ventures, entrepreneur, business skills, financing

## INTRODUCTION

The number of female entrepreneurs continue to increase, and most of them seem to face similar challenges, the greatest among them being lack of financing. This view is substantiated by several studies (Constantinidis, Cornet, & Asandei, 2006; Orser, Riding, & Manley, 2006; OECD, 2004) who all submit that despite the significant contribution made by female-owned businesses towards economies, female entrepreneurs continue to face a greater deal of challenges in accessing financing for their business operations. According to IFC (2011) across regions, women entrepreneurs have lower access to finance than do male entrepreneurs. This is unfortunate for female entrepreneurs as it undermines their efforts to grow and develop their businesses. This also means that compared to male-owned businesses female –owned businesses have a higher probability of failure.

This research addresses two pertinent questions: Is gender the main cause of female entrepreneur’s failure to access financing? And secondly; what are the owner-specific and firm-specific factors that influence financing of female owned business enterprises? To achieve this, the study analyses;

- a. The characteristics of the business owner that might influence sustainable financing and;
- b. The characteristics of the business/firm that may also have a direct influence on its sustainable financing.

Research on female-owned businesses and factors affecting their financing patterns is pertinent for several factors. First and foremost, women entrepreneurs make significant contributions to their economies (IFC, 2011). According to SFDI (2004) majority of women-owned SMEs brought in combined annual revenues of \$72 billion in 2000, representing approximately 8 percent of all revenues from Canada’s SMEs. Thus female entrepreneurship and its sustainability must be adequately explored so that optimal means through which women can effectively contribute towards the sustainable development of national economies are identified. Secondly, addressing gender-specific barriers to entrepreneurship and leveraging the full participation of both men and women in the development of Africa’s private sector together represents a significant opportunity to unleash Africa’s productive potential and to strengthen economic growth (Specavek, 2010). Thirdly, despite the evidence that female enterprises are increasing in number, financial institutions and investors have not fully understood or supported their resource needs to start and grow their businesses (Beckton et al., 2016). Furthermore, mainstream research, policies and programmes tend to be “men streamed” and too often do not take into account the specific needs of women entrepreneurs and would-be women entrepreneurs (OECD, 2004). Within the Zimbabwe SME context no research has been done to explore the dynamics of the interaction between gender and financing patterns. Another problem is that of all the past research none has explored the similarities and differences between male and female entrepreneurs’ choice of financing and the reasons for the differences in behavior. This study asserts that it is of great importance to explore the influence of gender on female entrepreneurs SME financing patterns and choices. The bulk of research has been done in the Western markets (mostly US and Canada). Comprehensive research is needed to extend and widen the existing evidence and to ascertain if the SME financing patterns and dynamics of female entrepreneurs in Zimbabwe mirror the findings from Western markets.

This study submits the results of an empirical research done on the effect of gender on the financing of female-owned SMEs using a sample of 50 Chiredzi female entrepreneurs. This enables a full exploration of the pertinent issues lying at the heart of

the financing of female-owned businesses in Zimbabwe. To submit the results, the paper proceeds with a summary of past research on Zimbabwean SMEs and on international SMEs and the methodology used. The empirical results are then recorded followed by a full analysis. The paper concludes with implications for the study findings, the research limitations and suggested areas for future research.

The effect of gender on female entrepreneurs' access to finance should be of interest to SME owners, academics, policy makers and relevant stakeholders. To the effect that the potential of female entrepreneurs is hampered by lack of sustainable financing, relevant stakeholders and policy makers must address the matter. Understanding the factors that influence female entrepreneurs' access to finance would be beneficial to academics in light of gaining knowledge on the interplay between SME financing, gender and financing choices. For SME stakeholders, if research does not explore the factors affecting financing of female-owned businesses, then the problem of failing to access financing by female entrepreneurs will persist, and the capacity to grow and develop sustainably of female-owned businesses might be regrettably hampered, since female entrepreneurs will be discouraged to apply for financing.

## **LITERATURE REVIEW**

### **Past Research on Zimbabwe SMEs**

Not much research has been done with regards to female entrepreneurship and its sustainability in Zimbabwe, more so SME financing and gender. Existing studies (Mboko & Smith-Hunter; 2009, Mauchi et al., 2014; and Mazonde; 2016) all highlight the constraints and challenges faced by female entrepreneurs in setting up their businesses. In their study Mboko & Smith Hunter (2009) document that female entrepreneurs are strong in entrepreneurial competence but are faced with obstacles that make it difficult for them to grow their businesses. On the other hand Mauchi et. al (2014), whose research explored the constraints faced by women entrepreneurs in Mashonaland Central Province of Zimbabwe asserts that women entrepreneurs face constraints related to access to finance, conflicts between work and family responsibilities, networking challenges, lack of education and management skills. Mazonde (2016), whose research focused on assessing female entrepreneurship from the view point of the female entrepreneurs themselves submits that female entrepreneurs' initial identities evolve through unshackling themselves from the imposed patriarchal structures into new identities. These studies have two things in common (1) they are more descriptive than they are conclusive regarding female entrepreneurship and (2) they do not explore the relationship between gender and SME financing of female entrepreneurs. These studies also do not explore the question of whether there is a link between choice of capitalization instrument and gender; or whether female entrepreneurs' choice of internal capital rather than external capital is linked in any way to their gender.

### **Past Research on SMEs Internationally**

Internationally, extensive research has been conducted on SME financing and gender. Past research (Bitler et al., 2001, Orser et al., 2006; Beckton et al., 2016; Constantinidis et al., 2006; Heidrick & Nicol, 2002; IFC, 2011; Pines et al., 2010; Specavek, 2010; SFDI, 2004) all agree that the biggest of all challenges and constraints faced by female entrepreneurs in

setting up and growing sustainable SMEs is failure to access financing. They also agree on two other things; firstly if provided with adequate financing for their SMEs, female entrepreneurs can make invaluable contributions to their economies, secondly female entrepreneurs seem to demand or seek for lower capital levels compared to their male counterparts. These studies are also more female-centric than they are male-centric, and so their analysis and results are from a female entrepreneur's perspective. However there exists some conflicting opinions between some of the studies. For instance Orser et al., (2006) in their research which examined gender differences among Canadian SMEs owners seeking external financing, found out that "contrary to previous work that did not control for size and sector of firm, women business owners were equally likely as men to seek all types of external financing, except for external equity capital". This implies that gender does not influence choice of financing, and if studies are done to establish the cause of failure to access financing they should not bother investigating the effect of gender. Constantinidis et al., (2006) on the other hand, in their study that focused on analyzing the relationship between financing patterns and barriers and gender from the woman entrepreneur's perspective, submit that gender has an effect on financing patterns, and further suggest that the relationship goes beyond and so must be further explored. Furthermore, Heidrick & Nicol (2002) propose in their study that "...the specific barriers faced by each group vary depending on factors such as overall risk associated with the venture, stage and type of financing, and industry, rather than a generalization of financing biases and barriers based on such factors as gender, age or minority status. The focus of this study, nevertheless, is to examine whether the results from the research on Zimbabwe female entrepreneurs will reflect the findings from Orser et al., (2006) study on Canadian women business owners. The following section highlights the methodology and the data used to conduct the study.

## **METHODOLOGY**

To evaluate the effect of gender on SME financing the study followed both a qualitative and quantitative research methodology approach. A stratified sample of 50 female entrepreneurs from the Lowveld town of Chiredzi was used for the study. The sample was made up of female business owners who operate various businesses in and around the Central Business District (CBD) of Chiredzi. A total of 50 questionnaires were distributed and the response rate was an impressive 100%.

### **Empirical Findings and Analysis**

In the following section, a presentation will be made of the findings from the study, pertaining to the relationship between gender and access to SME financing. This study explores the demand side (the female entrepreneurs' perspective) and analyses the attitudes of female entrepreneurs regarding financing. The following table presents the demographics of the respondents.

## Demographics

Table 1 below shows the demographics of the 50 respondents from the sample.

**Table 1 Demographics of respondents**

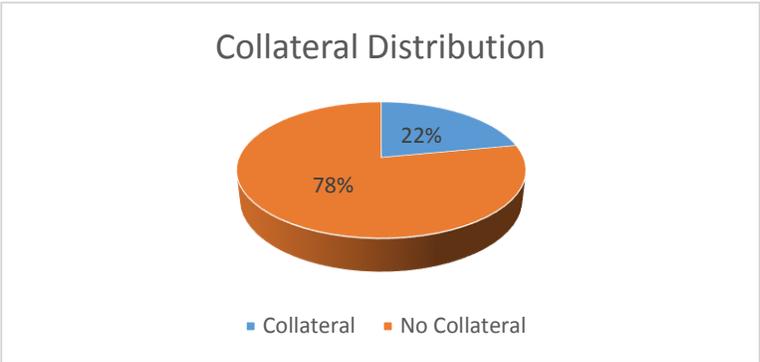
Variable	Class	Frequency	Percentage
<b>Age</b>	Below 25	6	12
	26-40	23	46
	41-55	13	26
	Above 55	8	16
<b>Marital Status</b>	Single	6	12
	Married	11	22
	Divorced	16	32
	Widowed	17	34
<b>Number of Dependents</b>	1 to 3	6	12
	4 to 6	35	70
	More than 6	9	18
<b>Level of Education</b>	No 'O' Levels	13	26
	O' Levels	19	38
	A' Levels	9	18
	Diploma	3	6
	Graduate	5	10
	Post Graduate	1	2

**Source: Adapted from Mauchi et al. (2014)**

From the sample, 12% were below 25, 46% were between 26 and 40 years, 26% were between 41 and 55 whilst only 16 % were above 55. Regarding marital status, 12 % were found to be single, 22% were married, 32% were divorced and the remaining 34% were widowed. 12% of the women had between 1 and 3 dependents, 70% had between 4 and 6 dependents whilst only 18% had more than 6 dependents under their care. In terms of level of education, 26% had no 'O' level education, 38% had 'O' levels, 18% had 'A' levels, whilst 6%, 10% and 2% had diplomas, graduate degrees and post graduate degrees respectively. These results show that most female entrepreneurs are between 26 and 40 years of age, are either divorced or widowed, have children and have an 'O' level certificate as their highest academic qualification. Most of them have families and dependents to look after and so operating a small business offers an opportunity to provide for their families. These results tally with those of Pines et al., (2010) who submit that 'This surprising finding has been explained as a result of the difference between "necessity" and "opportunity" entrepreneurship, with necessity

entrepreneurship found to be more prevalent among women in poor countries, thus pointing to the role played by inequality and exclusion in women’s entrepreneurial inferiority’.

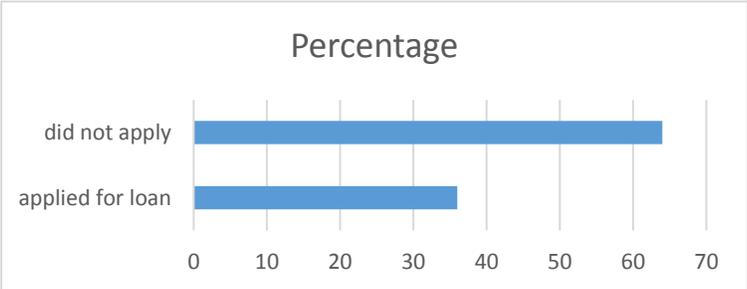
**Fig 1. Collateral Distribution**



**Source: Field Survey (2017)**

Fig 1 above represents the distribution of the collateral status of the respondents. Only 22% of the female entrepreneurs had collateral, the majority (78%) had no collateral to their name. These empirical findings are consistent with those of Mboko & Smith-Hunter (2009) who submit that most female entrepreneurs lack collateral to back up their applications for credit. Thus the bulk of female entrepreneurs apply for loans and other forms of credit without any collateral. Hence the high rate of failure in accessing financing by female –owned businesses. An investigation of the applications for a bank loan within the past 5 years is also an important way of evaluating effect of gender on SME financing. The following is a presentation of the results of bank loans made in the last five years.

**Fig 2 Bank loan applications in the last five years**



**Source: Field survey (2017)**

The graph shows that only 36 % applied for the loan whilst 64% did not apply. Results from the qualitative analysis of the interviews revealed that most female entrepreneurs do not apply for a loan for fear of exposing their businesses to high risk should they default due to the high interest on bank loans. In response to one of the interview question which asked ‘why have you not applied for a loan’, one female entrepreneur (FE1) replied:

(FE1) I would rather source funding from family and associates than take a bank loan which has a high interest and chances of defaulting are high. Failure to settle the loan might result in a litigation against my business and thus put my business at risk.

This agrees with Beckton et al (2016) who stated that “Anecdotal evidence in the entrepreneurial and finance literature indicates that gender plays a role in investment decisions and women entrepreneurs tend to invest more in less risky ventures”. Thus female entrepreneurs are more risk averse and will seek to make financial decisions that avoid risk.

**Table 2 is a distribution of the businesses which were formally registered and those which were not.**

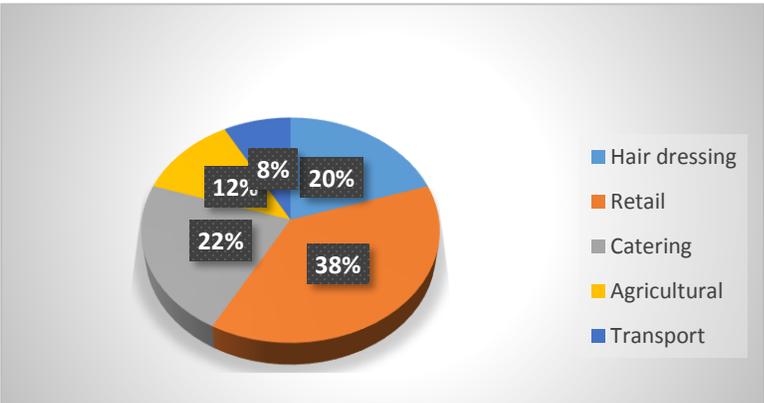
Type	Frequency	Percentage
Formally Registered	18	36
Unregistered	32	64
Total	50	100

**Source: Field Survey (2017)**

Of the 50 sampled respondents only 36% were formally registered and licensed, the remaining 64 % were not formally registered and were operating without a license. This is consistent with the view of many authors in literature who posit that most women entrepreneurs operate informal unregistered business enterprises and are mainly concentrated in the retail and service sector.

Fig 3 reports the distribution of female owned businesses in Chiredzi by sector. These results show that

**Fig 3 Distribution of sector of female-owned businesses in Chiredzi.**



**Source: Field Survey (2017)**

From fig 1 above it can be seen that 38% of the sampled female entrepreneurs are in the retail sector. 20% are in the hair dressing sector, 12% are in the agricultural sector, whilst 22% and 8% are in the catering and transport sector respectively. These findings are consistent with the results from past studies, namely (Orser et al., 2006; IFC, 2011) which posit that women-owned businesses are more concentrated in economically less valuable sectors.

**Growth Orientation**

The following are the empirical findings regarding growth prospects found from the interviews that were conducted on the respondents. The interviews were conducted across sector types and they helped to shed more light regarding female entrepreneurs approach regarding growth of their businesses. The following are some of the responses given with respect to expanding and growing their businesses.

*‘My major focus is to make sure my business meets all its monthly obligations which includes settling all the operational bills, paying wages of my 3 workers and settling my financial needs. Expansion is not really on my list of action plans for my business. If I can maintain things the way they are I will be happy’.*

Still two of the female entrepreneurs had this to say regarding growth;

*“I left my job to my start my own business so as to make more time to be with my family and take an active role in my children’s upbringing. I have to balance my involvement in my business with the time I spend with my family. I am satisfied with my business as it is, expanding it would mean I have to give more time than I have”.*

*“I started my business because I am passionate about catering, not because I want to make lots of money or because I want to own multiple food outlets. All I want is to offer unique service to my customers and give them an unforgettable experience”.* Interestingly this response corresponds to the observation by Beckton et al. (2016) who stated that “many women start a business to be in control, to experience challenge, to create something and to gain financial independence; many start a business because they need to generate income; and some take over their family business to better manage the operation” From the above interview responses it can be seen that women entrepreneurs are less growth-oriented and more stability-oriented. They are more disposed towards maintaining the status quo than they are towards growing their businesses into larger more profitable and competitive enterprises.

**Table 3. Number of Employees**

number of employees	Frequency	Percentage
less than 4	25	50
between 4 and 7	18	36
more than 8	7	14
	50	100

**Source: Field Survey (2017)**

The table above indicates that with regards to firm size of the sampled SMEs 50% had less than 4 people in their employ, 36% had between 4 and 7 employees, and only 14% had more than 8 employees. These findings confirm studies by IFC (2011) which proposes that “beyond structural gender-specific constraints that disadvantage women entrepreneurs (e.g., legal restrictions on their ability to enter contracts or open a bank account in their own name), firm size has an important influence on both company performance and credit-worthiness. Hence the size of a business enterprise speaks volumes to investors about

its financial capacity and its ability to settle debt obligations. Following this view it suffices to conclude that smaller businesses are less attractive to financiers and will face more hurdles in accessing financing compared to larger enterprises.

## **SUMMARY OF FINDINGS**

The findings from the study were found to mirror findings from a similar study that was conducted in Canada. Results from the study presented the reality that the major cause of female entrepreneurs' failure to access sustainable financing is not their gender but individual factors and firm level factors that have no association with gender in any way. The individual/owner-specific factors were found to be; lack of education, lack of collateral and being risk averse. From the study most female entrepreneurs were found to be uneducated and lacking business skills, lacking any form of collateral to back their applications for credit and very risk averse. Apart from individual/owner-specific factors, firm-level factors were also found to be of influence regarding financing of female-owned SMEs. The firm-specific factors were found to be size of the business, sector of the business, growth orientation and whether the business is licensed and formally registered or not. These empirical findings serve to conclude that gender is not the cause of the failure of female entrepreneurs to access sustainable financing for their businesses.

## **IMPLICATIONS FOR STUDY FINDINGS**

Instead of trying to address the gender issue, policy must be targeted at developing business skills of female entrepreneurs and to encourage them to venture into traditionally male dominated sectors which increases their access to financing. Female entrepreneurs must pool their resources together and come up with collateral which they can use for loan application. Female entrepreneurs must get educated so that they will be in a position to create business profiles that will give them access to financiers. Those operating informal and unregistered businesses must register their businesses so that they may attract and access financing.

## **RESEARCH LIMITATIONS**

The study did not incorporate male entrepreneurs to substantiate and validate the results that there are no differences in loan acceptance rates across gender. Due to resource constraints the study employed a sample of size 50, it could be argued whether a bigger sample size would have given different findings. The study was also limited to Chiredzi town, more robust results could be obtained if the study is extended to bigger towns and cities.

## **FURTHER RESEARCH**

There is need of research that assesses the importance and contribution of female owned businesses to a sustainable Zimbabwe's broader economy. The study will comprehensively covers all major female owned businesses in Zimbabwe and document their employment statistics and their annual revenues. This will clearly highlight their significant importance to the economy by showing their contribution through employment creation and revenue generation.

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Map of Chiredzi (Area under study)

