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# A proposed model of factors influencing female entrepreneurs' access to debt financing

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## ABSTRACT

This study explores female entrepreneur debt financing using a literature review approach. Based on our review of 22 journal articles and conference papers obtained from the google scholar database, 5 propositions were identified for empirical validation. The propositions are (1) Miniature capital structure hinder female entrepreneur ability to raise debt finance; 2) Lack of prerequisite resource affect female entrepreneur ability to raise debt finance; 3) Female entrepreneur that is risk averse have difficulty raising debt finance; 4) Gender difference affect female entrepreneur ability to raise debt finance and 5) Institutional and structural factors hinder female entrepreneur ability to raise debt finance. It is important that women entrepreneurs are supported by various stakeholders to overcome the challenges they face when seeking debt financing. Future research should empirically validate the propositions identified in the paper using both quantitative and qualitative research approaches.

**Keywords:** debt financing, Entrepreneurial finance, female entrepreneurship, women.





## 1. INTRODUCTION

Globally, women are launching and managing entrepreneurial businesses which has given rise to an increase in female-led business participation (Martinez & Marlow, 2017). Studies have shown gender differentials in access to financing and entrepreneurial opportunities (Henry et al., 2017; Leitch, Welter & Henry, 2018; Cardella & Hernández-sánchez, 2020; Skonieczna & Castellano, 2020). Ghouse et al. (2019) submit that finance is the missing link for the untapped potential for women in the entrepreneurial space. There is an estimated £1.3 trillion financing gap attributed to the lack of access by 80 percent of women-owned businesses in the United Kingdom (Jordan, 2019). In Africa a credit gap assessment by Ernest & Young revealed that female entrepreneurs have a finance gap of \$16 billion and the share of loans to female entrepreneurs is as low as 15.10% (IFC, 2011). Women entrepreneurs continue to struggle with obtaining debt finance.

Schuster (2014) notes that women tend to seek less funding, prefer to run smaller businesses, and are reluctant to take on the burden of debt. They encounter problems such as the risk of higher interest rates due to gender bias when obtaining loans. It has been argued that finance is an important resource in the development of Micro enterprises into sustainable SMEs (Olukayode & Somoye 2013), therefore if female entrepreneurs are to contribute to the economic welfare and labour market, especially in Nigeria, we must consider their experiences in obtaining debt financing. This paper analyses the factors affecting female business owners' access to debt financing through a theoretical lens. The study draws insights from the entrepreneurial finance literature, identifies propositions for empirical validation, and makes recommendations for policymakers.

## 2. REVIEW OF RELEVANT LITERATURE AND THEORETICAL PERSPECTIVES

Although, theories can look at the phenomenon of differential access from environmental factors, capacity for financial capital and risk aversion, and feminist perspectives (Leitch, Welter & Henry, 2018). To examine this subject, authors employ a capital structure/resource-based view and the Gender/Feminist theory of Finance and Entrepreneurship Growth.





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## Capital Structure/Resource-Based View

According to Modigliani and Miller (1958), a firm can use more debts to increase its investment, and enhance its value or earning power. Loans from banks are the primary source of credit for entrepreneurs. Loans are obtained based on the assessment of risks, return on investments, and creditworthiness of the entrepreneur. Notably, only a few large enterprises that can secure such credit are led by women (International Finance Corporation (IFC), 2011). Female entrepreneurs with a lack of proper capital structure have difficulty getting loans to grow their businesses. Female entrepreneurs appear to be risk-averse and prefer miniature capital structures. Lenders might have trouble with firms with such capital structure when raising investment, venture capital, or private equity (Ali, 2018).

Previous studies (Pringle & Kroll, 1997; Krueger, Reilly & Carsrud, 2000; Leitch, Welter & Henry, 2018) suggest that a broader mass of female entrepreneurs might not have the pre-requisite resources required because of the demand level and competition intensity of capital raising procedures or external and internal conditionalities to access capital for growth. Some studies have demonstrated pre-conceived bias with lenders' attitudes toward female entrepreneurs (Skonieczna & Castellano, 2020; Cardella & Hernández-sánchez 2020). Although, precisely, Leitch et al. (2018) reported female entrepreneurs had better credit scores and productivity, and profit margins than their male entrepreneurs. Yet, literature on the reason for the higher rejection rates of women entrepreneurs' loan requests are lacking. Most female entrepreneurs operate small businesses; size and preconceived notion of bias affect their ability to seek funds from angel capital and private equity investors. These are the possible reasons for low access to finance by female entrepreneurs.

Indeed, the resource-based view supports the argument that structural inequalities are a key factor responsible for the inability of women entrepreneurs to compete within the male-dominated business world. A higher rate of loan rejection, lower credit score, risk aversion, and firm size and small profitability margins simply make the capital market favour male entrepreneurs. Higher credit request rejections have been a hindrance to the aspirations of female entrepreneurs (The Alison Rose Review of Female Entrepreneurship, 2019). Therefore, structural inequalities are the main obstacle to access to finance that hinders the growth of businesses owned by women. The following propositions are proposed for empirical testing:



Proposition 1. Miniature capital structure hinder female entrepreneur ability to raise debt finance

Proposition 2. Lack of prerequisite resource affect female entrepreneur ability to raise debt finance

Proposition 3. Female entrepreneurs that are risk-averse have difficulty raising debt finance.

### **Gender/ Feminist Theory of Finance**

This lens considers institutional and structural barriers as outcomes of gender relations in entrepreneurial finance. Components for raising entrepreneurial finance such as financial literacy, (Wales, Parida & Patel, 2013). Verheul and Thurik (2006) did a comprehensive list of the broader factors for overall entrepreneurial differences for males and females with the following factors: technological development; economic factors (women's per capita income, unemployment, share of service sector, informal sector, labour participation, economic transition); demographic factors (family roles and structure, childcare and parental leave); institutional factors (business licensing, access to capital); and cultural values and beliefs. This view examines how gendered differences limit access to finance and women's aspirations and skills. This lens argues that external forces inherent in societal norms work against women's access to capital. It asserts that women are disadvantaged compared to men when accessing capital or resources by the following factors as living conditions, family decision-making, education, ethnicity, health, productivity, economic and physical security technology, life chances, and experiences (Romano, Tanewski & Smyrniotis, 2000; Puri & Robinson, 2013).

Gender difference is connected with women having less working experience, operating within a highly competitive and low-growth-oriented industry, gender-bias credit scoring, and gender stereotyping in evaluating investment opportunities (OECD, 2022). Typically, the feminist school of thought posits broader social attributes have an impact on women's financing challenges such as a lack of morale and/or financial support from lenders owing to low savings or credit scores and a dearth of readily available funds owing to social responsibilities to their families and friends (Bui et al., 2018). Women entrepreneurs put in more effort for their respective families, businesses, and communities since they are known to be more real, honest,





and committed to their personal and professional responsibilities (Motilewa, Onakoya, and Oke, 2015).

Psychological and cultural inhibitors can suppress the number of Nigerian women seeking funds in a male-dominated capital market. The information and skills need to seek funds may likely be obtained from and approved by a board dominated by males. Thus, this limited space with few female mentors on board and leadership roles who had successfully navigated the path with recognized leadership qualities and corporate fund-raising contributions (Nadin et al., 2020). Meyer (2018) noted that the successful participation of women in securing venture capital and private equity funding is anchored by building an informal women entrepreneurs' network.

Balancing work and family life could be an obstacle to raising debt financing by female business owners who are expected to manage family and work responsibilities. Therefore the following propositions are advanced for empirical validation;

Proposition 4. Gender differences affect female entrepreneur ability to raise debt finance

Proposition 5. Institutional and structural factors hinder female entrepreneur ability to raise debt finance

### 3. METHODOLOGY

The authors employ the literature review method to provide insight into entrepreneurial finance in the context of women entrepreneurs' debt financing. Authors searched for articles and conference papers using the google scholar search engine. We reviewed and analyzed 22 journal articles and conference papers.

### 4. DISCUSSION

Female entrepreneurs' access to debt financing is important to economic welfare and labour market, especially in Nigeria. In light of the Capital Structure/ Resource-based theory, we observed that female entrepreneurs are risk averse and prefer miniature capital structure which affects their ability to raise debt finance (Ali, 2018). Lack of pre-requisite resources and pre-conceived bias of lenders (Leitch et al., 2018) limit female entrepreneurs' ability to access debt finance. Based on the Gender/ Feminist Theory of Finance, our review suggests that institutional and structural factors such as financial literacy, (Wales et al., 2013), gender differences, and cultural values and



beliefs hinder access to debt finance. Gender difference is linked with women having less working experience, operating within a highly competitive and low-growth-oriented industry, gender-bias credit scoring, and gender stereotyping in evaluating investment opportunities (OECD, 2022).

Arguably, the elimination of gender bias and stereotyping can improve female entrepreneur access to debt finance. This review suggests more empirical studies on entrepreneurial finance, especially women entrepreneurs in Nigeria. Context is important in entrepreneurship theory development (Vu & Nwachukwu, 2021). In light of this review, we identify 5 propositions and develop the conceptual model in Fig 1.

Proposition 1. Miniature capital structure hinder female entrepreneur ability to raise debt finance

Proposition 2. Lack of prerequisite resource affect female entrepreneur ability to raise debt finance

Proposition 3. Female entrepreneurs that are risk-averse have difficulty raising debt finance.

Proposition 4. Gender differences affect female entrepreneur ability to raise debt finance

Proposition 5. Institutional and structural factors hinder female entrepreneur ability to raise debt finance

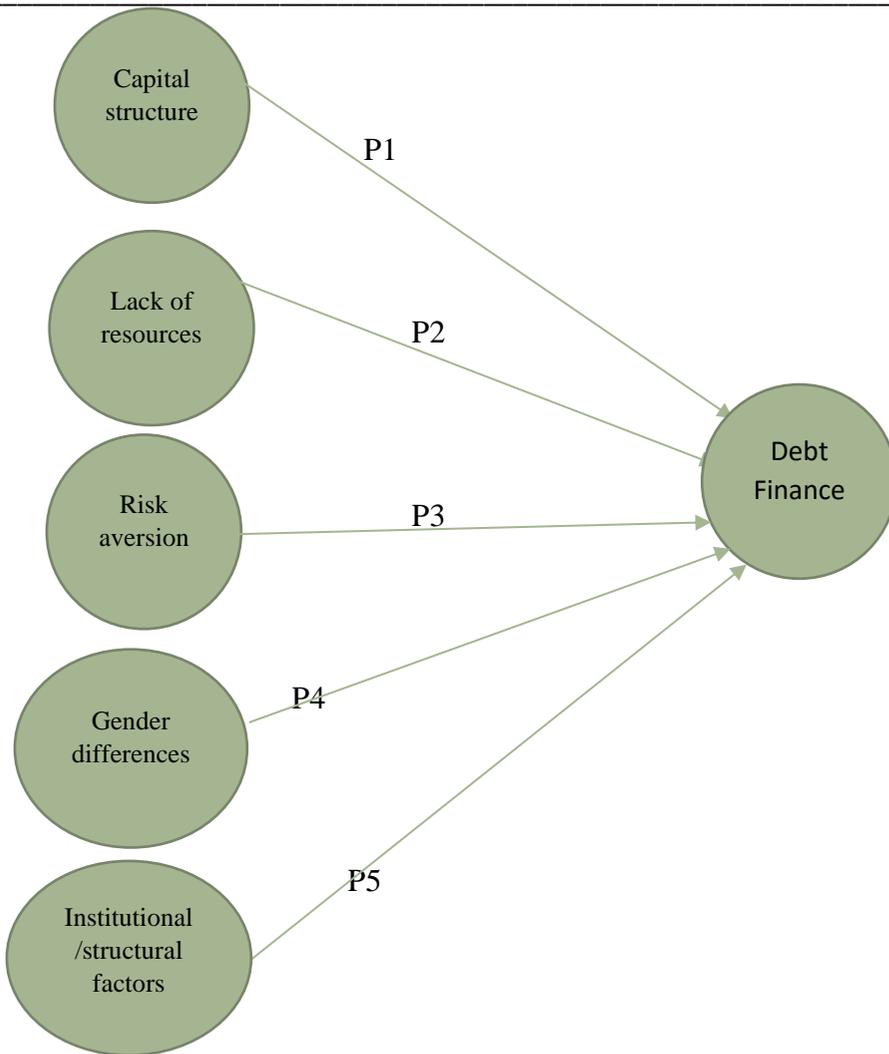


Fig. 1. Proposed model showing factors influencing women entrepreneurs' access to debt finance

Source: (Authors, 2023)



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## 5. CONCLUSION

The financing gap for female entrepreneurs is closing with local and international initiatives providing the requisite skills, opportunities, experiences, and training. There is a need to provide opportunities for female entrepreneurs to access debt finance. It is necessary for various stakeholders to provide new opportunities that will enable women-led businesses to obtain debt financing. As such female-led businesses should have unrestricted access to debt financing like their male counterpart. There is a gap in empirical studies that could provoke research on women's entrepreneurial debt financing in Nigeria. Therefore, our study adds to entrepreneurship scholarship by synthesizing the contributions of entrepreneurial debt financing and developing a model and 5 propositions for validation.

Finally, besides testing the proposed model authors recommend that the government;

Should encourage a culture that supports women and girls' capacity development. This could provide the needed competencies to create and manage sustainable businesses.

Continue to monitor existing government policies and implement new policies that will ensure fairness and a level playing field for female entrepreneurs to access debt financing.

### **Limitations and suggestions for future research**

The present study used the literature review approach to explore female entrepreneur debt financing, which may affect its generalizability. Nonetheless, the review of prior research on entrepreneurial finance will stimulate future research. Future research should empirically validate the propositions identified in the paper. Both quantitative and qualitative research approaches should be used to test our model. Testing these propositions In Nigeria could offer new insights into women's entrepreneurial debt financing and propel robust policy initiatives.





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