

## START-UP FINANCING SOURCES: DOES GENDER MATTER? SOME EVIDENCE FOR EU AND ROMANIA

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**Abstract:** *Although financial resources are very important in SMEs in general, and for start-ups in particular, many entrepreneurs face numerous restrictions in finding sources for start-up financing. The present article aims to investigate the similarities or differences in start-up financing sources due to gender issues, otherwise to investigate if female entrepreneurs use (or have access) different financial sources in the early stage of their business.*

*As reported by the literature, access to finance is one of the most important issues for SMEs and nascent entrepreneurs. Moreover, among the main financial issues, the first one is the access to start-up finance (Schwartz, 1976; Carter and Cannon, 1992; Johnson and Storey, 1993; Koper, 1993; Van Auken et al, 1993; Carter and Rosa, 1998, FOBS survey 2005). In all sectors, women use for starting up businesses substantially less capital than men. Women encounter, more than men, credibility problems when dealing with bankers. This problem causes important effects concerning the performance, survival and growth of women-run businesses.*

*The present research focuses on revealing how male and female entrepreneurs face and solve the problem of start-up financing sources. The methodology is based on using the dataset "Enterprises managed by the founder - broken down by gender of the entrepreneur", available in EUROSTAT database. The data selected refers to the start-up financing sources available for European Union and Romania, regarding activities included in NACE: Industry and services excluding public administration and management activities of holding companies and 2005 as time of reference. The data were used to make some comparison between: male versus female entrepreneurs in EU; male versus female entrepreneurs in Romania; EU entrepreneurs versus Romanian entrepreneurs.*

*The main findings reveal that there are no significant differences between men and women concerning the start-up financing sources. The main sources are the internal ones: own fund and savings (ranging from 82% to 92%), and financial assistance from family and friend (ranging from 25% to 34%), both for male and female entrepreneurs, both for EU as an aggregate and Romania. Among the external sources, bank loans are the most important: they have been indicated by 17% of the females (EU) and 19% of the males, about 10 times more than the other external sources together: capital contributions from other enterprises and venture capital. There are no significant gender differences in EU case, and also there are not in the case of Romania. Apparently, gender does not matter about sources used for start-up financing. The most significant difference concerns the financial support from public authorities as financial source. The number of female entrepreneurs indicating financial support from public authorities as a source for start-up financing represents 6.18% in EU, versus 0.17% in Romania (36 times less in Romania than the EU average), while for men the figures are 4.85% in EU versus 0.30% in Romania (16 times less in Romania). This gap brings again in front of policy responsible the imperative of financially supporting nascent entrepreneurs, as the key to sustainable economic growth.*

**Keywords:** *entrepreneurship, women entrepreneurship, financial sources for business start-up*

**JEL code:** *M13*

## Introduction

Entrepreneurship is widely considered as a driving force of economic growth, job creation and promoting innovations, and thus, an important focus of economic policies. As a result, the number and incidence of SMEs in the national economies are increasing constantly. Nevertheless, fostering entrepreneurship needs providing fair access to financing. Unfortunately, the access to finance is mentioned as one of the most important barriers (Hughes and Storey, 1994) and in the case of female entrepreneurs, the situation is even worse.

In this paper we are going to investigate the differences (if there are any) between female entrepreneurs and male entrepreneurs with respect to the sources of start-up financing, for EU and Romanian case. The paper is organised as follows: in the first part, we make a brief review of the literature; in the second part we present the methodology used, in the third part we emphasize the main results, and finally we conclude.

### 1. A brief review of the literature

Start up financing is a major problem for the nascent entrepreneurs, as banks, the most important lending supplier, are reluctant to involve in SMEs financing, for reason related to asymmetrical information - adverse selection and moral hazard. The financial problem is a constant of the entire life-cycle of the SME, but researches showed that the first stage of existence (from idea to start up and then, first steps to development) is more affected by financial restriction than following stages. Especially in the so-called "valley of death" stage, the problems are very serious and most starting entrepreneurs use their own savings, family and business angels support (see Badulescu and Badulescu 2010). Theoretical explanations of the prevalence of the internal finance (personal savings or retained earnings) in the SMEs case are confirmed by recent European Barometer on Entrepreneurship (EC, 2009). According to this, across all EU Member States, a majority

of interviewees agreed that it was difficult to start one's own business due to a lack of available financial support. In Greece, Bulgaria, Latvia, Slovakia, Spain and Romania, 90% or more of the respondents agreed (strongly agreed and agreed) with that statement. At the bottom of the ranking, people in Finland, Austria and the Netherlands agreed with the statement on a proportion of less than two-thirds (56%-63%).

Female entrepreneurs, more than males, face start-up financial difficulties. Start up finance is one of the most cited problems in the case of women entrepreneurs. For example, the most important problems facing women entrepreneurs are – in the opinion of the specialist agencies cited by CEEDR 2000 – as follows:

- Start up finance (indicated by more than 25% as a major problem);
- Finance for growth (indicated by more than 20% as a major problem);
- Discrimination by finance providers (indicated by more than 15% as a major problem). All of these are related to the access to finance.

Among the *four* areas of finance identified as posing problems for women by Carter, S. (2000) and then Carter, Anderson and Shaw (2001), the first one is access to start-up finance (Schwartz, 1976; Carter and Cannon, 1992; Johnson and Storey, 1993; Koper, 1993; Van Auken et al, 1993; Carter and Rosa, 1998, FOBS survey 2005). Irrespective of sector and location, *women start in business with only one-third the amount of capital used by men*. Women are more likely to encounter credibility problems when dealing with bankers. It is difficult to raise start-up finance. Some studies have shown links between low start-up capital and subsequent poor performance. Female entrepreneurs use substantially less capital at start-up than male owners, although intra-sectoral similarities demonstrate that gender was only one of a number of variables affecting the business financing process

(Carter S. and Rosa P. 1998). The majority of women business owners have had to rely to a significant extent on self-generated finance during the start-up period of their business. Whilst many small businesses face difficulties in accessing the finance that they need (particularly at start-up), organizations specialising in providing support for female entrepreneurs clearly feel that this is one area where their clients face greater difficulties than their male counterparts. Shaw, Carter and Brierton (2001) have found research that suggests women face more difficulty when seeking finance to set up and grow their business. They note that women use only one third of the starting capital that men do, irrespective of sector; on-going growth finance may be less available for female owned firms than it is for male enterprises, largely due to women's difficulty in penetrating informal financial networks. More women-owned businesses, for example, used family savings, household income, inheritance, grants and friends as sources of business finance. "In fact, Carter and Anderson (2001) found that women's personal savings constitute between 80% and 99% of initial capitalisation, compared to men where the figure is between 30% and 59%. Although this may seem admirable it can often have a negative effect on the business (Sannikova 2007).

Using a panel of 2000 Dutch start-ups (1994), Verheul and Thurik (2001, p. 14 ) found out that „female entrepreneurs have a smaller amount of start-up capital than their male counterparts, but that they do not significantly differ with respect to the composition of financial capital". Women start up their business with less capital than men, and this can be attributed to a direct effect („gender effect": men and women having the same characteristics but different with respect to the way of financing their businesses) and to an indirect effect („the female profile": differences related to business type, management and experience)(Verheul and Thurik, 2001).

Smaller financial resources to start up business leads unfortunately to less business performance and growth (Welter et al. 2006).

## **2.Methodology**

Aiming to reveal the similarities or differences between female and male entrepreneurs' start-up financing sources, in EU and Romania, we used the dataset "Enterprises managed by the founder - broken down by gender of the entrepreneur", available in Eurostat database. We select from this database the data regarding the start-up financing source available for European Union (aggregate changing according to countries available) and Romania. Available data refers to NACE: Industry and services excluding public administration and management activities of holding companies and to the year 2005.

First, we select the data for the EU, broken by the gender of the founder and manager of the firm and search to arrange the sources for start-up financing starting with the most important, e.g. more nominated by the respondents. Second, we did the same thing for the data available for Romania, sorting them by relevance. Third, we tried to make some comparison between:

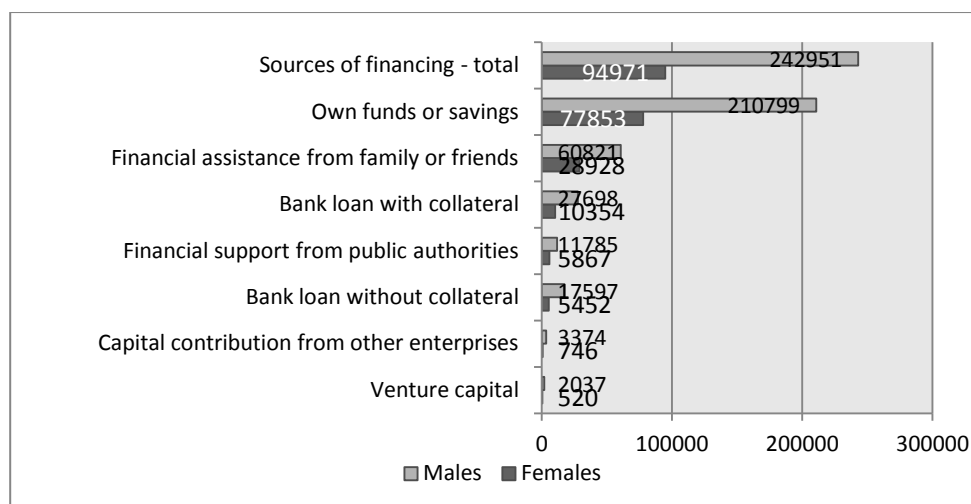
- Male versus female entrepreneurs in EU
- Male versus female entrepreneurs in Romania
- EU entrepreneurs versus Romanian entrepreneurs.

## **3.Discussion and results**

As the literature reported, and according to expectations, the main source for start-up financing used by women nascent entrepreneurs in EU are the own funds and savings. More than 4 out of 5 cited own funds and savings as a source for start-up financing, followed by the financial assistance from family and friends, reported by 3 out of ten women entrepreneurs. Far from these internal sources, the external sources are barely mentioned. Even we approach bank loans together - with and without collateral – they

are mentioned by only 1 out of 6 of the respondents. If we approach separately bank loans without and with collateral, the third source appears to be The financial support from public authorities (mentioned by 6% of

the respondents). Capital contributions from other enterprises and venture capital are nominated by only 1.34% of the women entrepreneurs. The complete picture is shown below:



**Chart 1. Sources for start-up financing, NACE industry and services, EU, males and females, 2005**

Source: based on Eurostat database

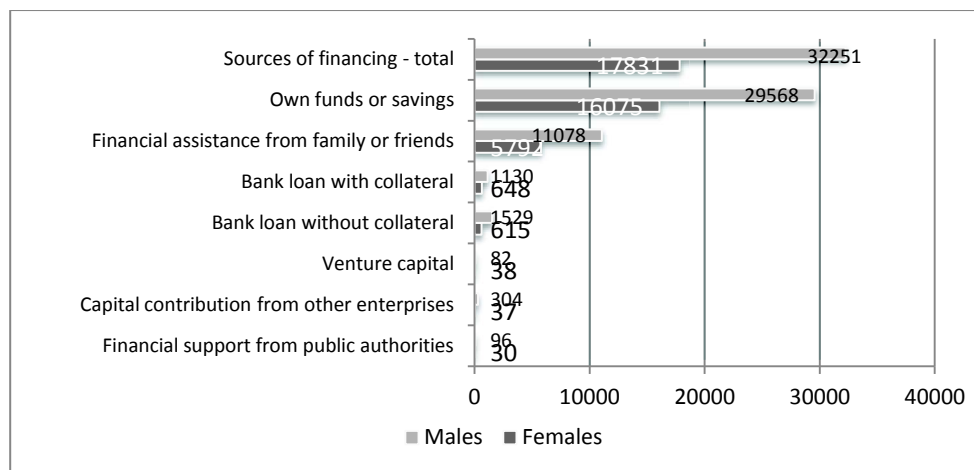
Basically, the same ranking applies for men entrepreneurs. Own fund and savings, and financial assistance from family and friends are the first two sources for start-up financing. Own funds and savings are mentioned by 87% of the men (even more than the 82% in the case of women), while financial assistance from family and friends is mentioned by 25% of the men (less than the 30% indicated by women). This little difference can be attributed to the fact that men may have (or may consider that!) more personal money than women, so essentially the same money are, for men, own fund, and for women, family's money. It may be also an indication of the less effective networking in the case of women (explaining why financial assistance from friend is less important than in men's case. And also, do not forget that women have more women friends (with less financial resources) and

men have more men friends. Bank loans with collateral are the third financing source. Together, bank loans (without and with collateral) are indicated by 18.64% of men (versus 16.64% of women). Financial support from public authorities (mentioned by 4.85%) and capital contributions from other enterprises and venture capital (mentioned by 2.23% of the respondents) are still marginal sources.

In the case of Romanian entrepreneurs, the picture is mainly similar, as expected. The main source is, far from the others, own funds or savings, indicated as financing sources by 90% of the female entrepreneurs and even more by male entrepreneurs. The second source is financial assistance from family and friends (indicated by 1 out of 3 entrepreneurs, males and females). Bank loans are indicated by 7% of the Romanian female entrepreneurs, and 9.24% of the Romanian male

entrepreneurs (for comparison, bank loans have been indicated by 17-19% in EU case). Capital contribution from other enterprises and venture capital are almost not used as start-up financial sources. Financial support

from public authorities is effectively non-existent, with 0.17% of the females and 0.30% of the male entrepreneurs indicating as a start-up financial source.



**Chart 2. Sources for start-up financing, NACE industry and services, Romania, males and females, 2005**

Source: based on Eurostat database

#### 4. Conclusions and further implications

Main sources for start-up financing remain internal sources: own fund and savings, and financial assistance from family and friend, both for male and female entrepreneurs, both for EU as an aggregate and Romania, a new member state and still developing economy. Regarding the external sources, bank loans are the most important: they have been indicated by 17% of the females (EU) and 19% of the males, about 10 times more than the other external sources together: capital

contributions from other enterprises and venture capital. There are no significant gender differences in EU case, and also there are not in the case of Romania. Apparently, gender does not matter about sources used for start-up financing. The access to external financial sources is restricted for entrepreneurs of both genders: only 1 of 6 nascent entrepreneurs has access to them. The complete picture and comparison are shown in Table 1.

**Table 1. Sources for start-up financing: males versus females, Romania versus EU (2005)**

Source for start-up financing	Indicated by ... % of the females (EU)	Indicated by ... % of the females (RO)	Indicated by ... % of the males (EU)	Indicated by ... % of the males (RO)
Own funds or savings	81.98	90.15	86.77	91.68
Financial assistance from family or friends	30.46	32.48	25.03	34.35
Bank loan without collateral	5.74	3.45	7.24	4.74
Bank loan with collateral	10.9	3.63	11.4	3.50
Capital contribution from other enterprises	0.79	0.21	1.39	0.94
Venture capital	0.55	0.21	0.84	0.25
Financial support from public authorities	6.18	0.17	4.85	0.30

More than gender seems to matter the development stage and/or public involvement in policies and programmes fostering entrepreneurship. The most significant difference revealed by the data is related to the financial support from public authorities. The number of female entrepreneurs indicating financial support from public authorities as a source for start-up financing represents 6.18% in EU, versus 0.17% in Romania (36 times less in Romania than the EU average), while for men the figures are 4.85% in EU versus 0.30% in Romania (16 times less in Romania). Probably the gap is even bigger now, after implementing numerous European programmes in fostering women entrepreneurship.

After all, if gender does not matter, there other things that matters: entrepreneurship policies!

Some further research can be carried out regarding other things that matter: economic sector can be one, so different NACE in the EU database are to be studied further. And further policies should be enforced to promote, foster and support (financially included!) entrepreneurship, as an important key to economic growing and social progress.

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