Growing Women SMEs: unblock the Bottleneck of Access to Finance along the Business Life Cycle (BLC)

Authorship:
Henvisha Gowressoo henvisha.gowressoo@brunel.ac.uk
Xiaoqing Li xiaoqing.li@brunel.ac.uk
Ainurul Rosli ainurul.rosli@brunel.ac.uk

Affiliation: Brunel Business School, Brunel University London
Contact Address: Eastern Gateway Building, Kingston Lane, Brunel University London, Uxbridge UB8 3PH

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Abstract

The paper investigates the impact of factors influencing access to finance on the growth of women-owned small and medium enterprises (WSMEs). Women entrepreneurs are frequently confronted with a lack of support and assistance, hence, less chance of financing opportunities, while developing their ventures. Despite the growing interest in WSMEs start-ups and economic growth, there is still a lack of both theoretical and empirical research on the institutional influences on WSMEs' access to external finance and the financial needs across the BLC. Therefore, this study incorporates the institution theory and the pecking order theory, to explore how access to finance affects the WSMEs' BLC. Additionally, the paper adopts two-approaches to further examine the phenomenon: the supply-perspective, institutional factors, including sources of finance, are explored and the demand-perspective, the financial needs across BLC. The study will utilise a qualitative approach to collect data, using face-to-face, semi-structured interviews with key participants in Mauritius.

Key words: institutional, smes, women entrepreneurs, access to finance, business life cycle

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Introduction

Access to finance for SMEs has been a continuous concern for the majority of entrepreneurs, particularly for WSMEs. Research highlights that the lack of finance accessible to SMEs is a major impediment to their growth, hence known as the lifeblood to businesses, and has the potential to impact a range of businesses, communities and individuals in entrepreneurship (Abdulsaleh & Worthington, 2013: Neeley & Auken, 2010: Eddleston et al., 2014). The basis for emphasizing the subject on the access to finance of women entrepreneurs is, although, there are around 8-10 million formal women-owned SMEs, in developing markets, indicating 31-38% overall (Bardasi, et al, 2011), the degree of growth of women SMEs is drastically inferior to the average growth rate by men SMEs (Bardasi, et al., 2011). While WSMEs is contributing enormously to their economies and the numbers are remarkable, they are dealt with greater impediments; they are not recognized as active, productive and engaged in micro to smaller businesses only (Arenius and Minniti, 2005; Allen, 2012), limiting their access to finance and firm's growth and development (Chong, 2012; Khan and Khalique, 2014). Statistically, it was acknowledged that women-owned SMEs in developing countries accounted for 70% in the formal sector, were either under-served or unserved by their financial institutions by approx. $285 million (IFC, 2017).

Further, empirical study, by Karodia, Inderpal, and Mandishaya (2015) concluded that women-owned firms tremendously experienced high credits difficulties due to the issues of rights and voice and are often under-resourced or under-capitalized especially in developing countries (Fatoki, 2014). Indeed, WSMEs' financing has become a dominant issue to policymakers, entrepreneurs, and scholars due to the wide availability of sources of finance, which could improve their growth, survival, and performance (Hechavarrìa et al., 2018). Yet, studies seem to ignore the distinctive status of WSMEs in a different contextual framework. The much-cited critical review on women entrepreneurs' research by Ahl (2006) named "Why research on women entrepreneurs needs new directions "posit interesting dissemination on the incentives for the special issue and as stated by Brush and Cooper (2012), the number of women entrepreneur's desire to grow their business and their needs to focus on the barriers- seek to maintain the entrepreneurial effort of their ventures.

The recent studies that have concentrated on the financing structure of SMEs, are based on SMEs in developed countries (Ruziev & Webber 2020; Wang et al., 2020; Wasiuzzaman & Nurdin, 2019; Dowling, 2019; Van-Klyton & Rutabayiro-Ngoga, 2018). And of those addressed in developing countries (Bhaird and Lucey, 2011; Estrin et al., 2013; Fatoki, 2014; Ye & Kulathunga, 2019; Ullah et al., 2019), the focus is more on its obstacles to SME's start-ups, entry and few on growth (Nurbani et al., 2011; Alemu & Dame, 2017). Nevertheless, the literature lacks a consistent and systematic answer to address the issue based on the institutional environments (Scott, 2014) in developing countries assisting WSMEs to overcome the finance access challenge and how those entrepreneurial firms grow their businesses. Further, recent studies in entrepreneurship are focused on either by addressing the investor's decision on firms and/or the relationship factors (Blaseg et al., 2020: Bronzini et al.,2020: Cipollone & Giordani,2019). Other works addressed the focus on a limited stage, mostly at early stages analyzing one type of financing (Brown et al.,2019: Bertoni et al., 2019: Epure & Grilli, 2019: Vaznyte & Guasch, 2019). Additionally, few of the studies include both investors and firms across the firm development (Samuelsson et al., 2020: Shane et al., 2019: Ko & Mckelvie, 2018). However, we are still immobile as to "how", "when" and "why" successful WSMEs grow and support their financial needs across the BLC.

In response, it demands better investigation related to their inaccessibility of finance from the supply-perspectives, drawing from the institutional theory (Scott, 2014: Ahl, 2006; Burns, 2010), this study will investigate how the government policy role support WSMEs access to external finance to grow their ventures and demand-perspectives, drawing from the pecking order theory, from the level of firms' stage, how WSMEs financial needs are based on their hierarchy preferences in support their growth across each stage (Myes and Miller, 1984: Kairiza, Kiprono, and Magadzire, 2017).

Literature Review

Since access to finance plays an incremental role in growing entrepreneurial ventures, and hitherto, it is one of the most challenging impediments for entrepreneurs (Neeley & Auken, 2010: Eddleston et al., 2014). A business needs finance for its start-up processes, revenue, and capital expenditures, developing new products and services and to achieve long term goals and survival (Harash et al., 2014). However, a larger body of literature in entrepreneurship has tried to provide insights on how firms manage opportunities and resources constraint (Alayemi & Akintoye, 2015; Afolabi, 2013; Balios et al., 2016; Cole, Cumming & Li, 2016: Ho & Mallick, 2017; Yung, 2019). For instance, it mainly focuses on a substantial range of resources challenges that entrepreneurs face substantial resource, ranging from human capital (literacy and skills), financial capital (e.g., cash, material resources), to social capital (e.g., information from social contacts that allow them to access financial capital (Clough, 2019). The process of spotting an opportunity and converting it into a business and growth, yet, does not suit most organisation/people and the environment they are operating (Reymen, 2015: Jonsson & Lindbergh, 2013). Why entrepreneurial firms grow faster than others, while some remain mobile, fail or reach declining stages, could be explained by the supply of finances that need to be readily available and the demand for finance by firms to avoid failure or decline stages (Gudov, 2013). These may involve both internal financing (IF hereafter) and external financing (EF, hereafter) (Ananzeh, 2016) and the alternative financing mechanisms trying to overcome the finance gaps for SMEs' start-ups (Bruton et al., 2015).

From the IF sides, academics have highlighted how SMEs adopt this specific source to support their ventures by using bootstrapping finance theory (Neeley & Auken, 2010; Nguyen, 2013). Owner's savings, the 3F's and retained earnings have been the way forward for entrepreneurs, as it involves fewer costs as well as less giving up control (Vanacker & Manugart, 2010). Several scholars confirmed that IF is the first choice at the start-up stages of SMEs (Atherton 2012: Deakins et al., 2010: Yazdanfar and Turner 2012: Stancu et al., 2015, Yazdanfar, 2013). However, a study by Elston and Audretsch (2011) highlighted that, not all entrepreneurs acquire IF and struggles while raising finance for start-ups and beyond. Honjo and Harada (2006) confirmed these results when investigating the impact of SME policies as well as the financial structure of firms on SME growth. They conclude that IF posit an impact on start-up and early growth stages, and yet EF shows better promising avenues to overcome the issue of access to finance for SMEs. Degryse et al., (2012) also argued that EF is often needed for SMEs to develop and succeed.

Subsequently, EF is becoming a key player in supporting entrepreneurial firms. An array of work has shown extensive sources of EF providing finance to SMEs based on certain conditions in the financial markets. For instance, business angels invest their funds in high-potential-growth start-ups' companies with equity contracts (Shane, 2012; Kerr et al., 2014), besides, offering business expertise and personal networks to SMEs (Mitter, 2012 Abdulsaleh & Worthington, 2013; Ramadani, 2012). Additionally, it aims to fill the finance gap between sources of financing early stages, when other external financial institutions are reluctant to grant credit (Shane, 2012). Venture Capital has also gained importance in supporting SMEs by acting as a director, an advisor, or even a manager among other things, carry the process of contracting, monitoring and screening in firm growth stages (Hopp, 2010; Colombo et al., 2016), by improving upon the traditional way of financing, when information asymmetry is severe (Revest & Sapio, 2012). While traditional bankers usually shy away from equity financing and provision of loans to SMEs, yet bank financing (loans) remained the larger source for SMEs in developing economies (Carey & Flynn. 2005; Vera and Onji, 2010), despite the lending policy depend on the "credit rating" (eligibility of paying back loans) of an SME. It is mostly guaranteed at later stages when the firm is more stable (Wu & Shen, 2013: Dwyer & Kotey, 2015: Baldock and Mason, 2015).

However, prior studies argued that the lack of credit history, asymmetrical information, potential agency problems, lack of assets and lack of collateral among others limit the access to bank financing of SMEs (Nyikos et al, 2020; Cowling et al., 2012; Khandker et al., 2013; Bhaird & Lucey, 2009). Thus, crowdfunding is the new alternative financing described as money from the crowd via an internet platform, which aims to address the issue of finance gaps and innovative solutions to SMEs (Brown et al, 2019). Yet, these studies were mainly conducted in developed countries for early stages firms (Bruton et al, 2015: Langley, 2016), one may ask whereby an under-developed economy, where they experienced poor infrastructures, could this idea be applied and if so, how and when does crowdfunding assist SMEs, particularly women entrepreneurs to overcome their financial constraints and how those entrepreneurs channel this source to grow successfully?

Importantly, at the core of this study, the inventions to promote access to finance for SMEs, particularly for women, centres the elements of the development of many governments in developing economies. Governments are acting as both a supplier of finances and a regulatory body in seeking to support its economy by providing adequate financial support to financial institutions and its SMEs (Johansson et al.,2019). Given this, governments have set up several schemes and investing billions of dollars every year in direct loans, interest subsidies/government-subsidized lines of credit and public guarantee fund, venture capital trusts, soft loan schemes and loan guarantees (Muneer and Ahmad, 2017; Emine, 2012; Bazza et al., 2014), Additionally, impose other programs to address and eliminate the persistent funding gaps facing SMEs as a result of market imperfections on the supply side and their national economies (de la Torre et al., 2010). However, prior research shows that the government, as an outer source, did not significantly impact on SME growth (Bennett & Robson, 2001) due to lack of trust in government-led services and the lack of awareness and knowledge to its businesses (Niska and Vesala, 2013; Wyrick et al., 2013).

Theorical background

The institutional environment within which, a firm operates is one of the key players to promote access to finance for WSMEs. The entrepreneurship literature has depicted the role of institutions as an array of classifying and explanation various entrepreneurial related issues such as the interactions, correlation, and collaborations between individuals and their institutions (Kim& Li, 2014: Colombo et al, 2017). Institutions, for this study, include policies by governments' laws and legislations to support access to finance for WSMEs. Institutions theory has been proven to be a useful tool in entrepreneurship research in shaping forces that affect entrepreneurial success within an environment (Bruton et al., 2010). It derives from Scott, 2014) three key forces namely:

Forces	Description
Regulatory	The formal rules, laws and, regulations; legal sanctions embedded within governmental institutions.
Normative	The less formal influences of established policy and professional standards and procedures: the roles and actions expected of individuals socially established: norms and values
Cognitive	The most informal influences that are shared amongst individuals that are often taken-for-granted: cultural rules, symbols which establish social reality, understanding and guiding behaviours. beliefs and perceptions.

(Source: Scott, 2014)

Despite some entrepreneurship's studies has provided insights into entrepreneurial activities influences by those forces, there is still much to be done (Bruton et al, 2010), specifically to address, how entrepreneurial success could be different in different economies on financial terms and how those forces, particularly regulatory forces by the government could addressed the issues of access to finance for WSMEs to promote growth/success and alleviates the phenomenon (Youssafzai et al., 2015), across the BLC.

On demand-side, the pecking order theory introduced by Myers (1984) as an alternative explanation of the capital structure of firms, it seeks to explain alternative financing behaviour among firms, something which is overlook on the BLC. For instance, the theory does not seek finance through for a cycle development of firm but rather denotes that choice of finance is generated by the entrepreneurs/firms; a preference order theory, which describes how firms choose to obtain new financing for their initial activities (Krasauskaite, 2011). The theory has been confirmed by several authors to understand entrepreneurial firms' ideal financials' preferences choices (Palma et al., 2018: Coleman & Robb, 2010; La Rocca et al, 2009). As noted by (Atherton, 2012), the theory results from the fact that SMEs tend to rely overwhelmingly on internal sources of finance in the start-ups, whereby, they have limited access to capital markets and other large-scale equity investment. While, POT is still one of the most influential theories of corporate capital structure (Degryse et al, 2013; Serrasqueiro et al., 2016), it excludes how sources of finance are acquired or structured clearly on the BLC of firms. In essence, POT might assume that entrepreneurs are capable of recognising, which sources of finance are available and can then rank the aforementioned sources to grow their ventures.

Therefore, building and incorporating on Scott's (2014) "Institutional theory "as the institutions do matter to frame and address the issues of access to finance for WSMEs and Myers (1984) "Pecking order theory" to analyse whether this hierarchy preferences by WSMEs promote growth and support the BLC. We aim to examine both the supply and demand side of the phenomenon as explicit research needs to be done to address "how", "when "and "why" on both approaches, influencing the success of WSMEs to overcome and support business progress vis-à-vis the interaction of the institutions and organization's level of stages.

The following research questions and propositions will be the quest of the study:

RQ 1: When and how do key financial institutions, particularly, government support WSMEs across growth stages and why?

Proposition 1: At the early stages, WSMEs are prompt to initiate their ventures with internal finance due to a lack of access to external finance in the market. The growth of WSMEs is highly influenced by its regulative forces in developing economy, thus the interventions to promote WSMEs growth by government policies will unlock the impediments of finance access across the business life cycle.

RQ2: How and why do WSMEs channel or overcome their sources of external finances across growth stages and what drives these choices?

Proposition 2: At the early stages, WSMEs have a preferential choice of utilizing internal finance first, if not available, external funds (debt and then equity) will be accessed. Across growth stages, SMEs posit a greater visibility to financial providers, thus, WSME highly recognised its specific financial stage needs by the wider choices of external financing to sustain or grow their ventures.

Proposed Methodology

Research design

For this current study, due to the interpretive philosophy and inductive approach, a qualitative approach will be adopted to collect data and get a more in-depth investigation showing the main findings to address the interactions from both government's bodies and individuals' perspectives rather than non-numerical data (Aliyu et al., 2014). The use of the qualitative method will be beneficial as there are fundamental aspects to be analysed to retain the outcomes and purpose of the study through reliability and validity (Parker, 2010) to gain more knowledge and addressed the phenomena. Hence, the qualitative method will provide an opportunity to understand how the supply-side and demand-side overcome financials' access constraints for WSMEs business finance needs to attain their growth.

Data collection

This study will adopt both judgmental and snowballing sampling, which will be used by the researcher's network and participant's referrals (Noy, 2008). The researcher's network includes governmental bodies and women owners in SMEs . If it is problematic to get access to WSMEs effectively, snowball sampling will be useful to overcome the delinquent, a referral will be asked by the researcher to the current participants to gain access to more participants to be able to conduct out the research and collect the data, which was indeed efficacious. It is based on a proxy for qualifying as small under the proposed thresholds at the time of the study; the sample was chosen on the premise of the SMEs meeting each of the three of the accompanying criteria in Mauritius, a developing country (Omit & Gobardhun, 2011):

- Turnover not exceeding Rs50m: £1m
- Balance sheet total not exceeding RS5m: £100,000
- Up to 250 employees
- 0-10 Years in operation

Moreover, it will be based on the different sectors SMEs in Mauritius which include, food industries, manufacturing industries, beauty care, and retail industries, etc.

Hereafter, the sample instruments and sample size of this study will be thought semi-structured interviews lasting for 2-3 hours with circa 30 WSME owners from the demand side within 10 years in operation and governmental bodies in the ministry of business, enterprises, and corporation as well as the minister, who introduced SMEs financial schemes to assist women entrepreneurs between 2005-2010. It will help the researchers to grasp the in-depth understanding of financial supports available for WSMEs in Mauritius's institutions as well as capturing the supply perspectives with regards to the studied phenomena, revealing the main findings to support and grow WSMEs, vis-à-vis lenders and borrowers, throughout their business life-cycle based on two distinctive approaches.

Prospective entrepreneurship contribution to theory and practise

The overarching aim of this study is to address the key barriers/opportunities, which SMEs face in developing countries, particularly assisting women entrepreneurs' ability to develop as well as sustain successful business ventures with the specific environment and their firms. Therefore, contributing to the entrepreneurship literature by revealing how one of the critical bottlenecks for WSMEs growth-access to finance-can be resolved along the various stages of enterprise development with a more in-depth qualitative research method. The insights gained from this study will have both theoretical and practical implications, which lays a foundation for future research on exploring the potential of women entrepreneurship and small and medium enterprises and assist governments policies to improve and encourage better entrepreneurship. Additionally, it will contribute to knowledge in the growing literature of entrepreneurial finance, policymakers, and WSMEs level of stages, which is still yet to be developed further.

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