IMPROVING WOMEN'S ACCESS TO FINANCE: EXECUTIVE SUMMARY

Arad Consulting
January 2006

Introduction

This is the Executive Summary of the research conducted on *Improving Women's Access to Finance* by Arad Consulting Ltd on behalf of Chwarae Teg. The objective of the research was to provide an understanding of the attitudes of women entrepreneurs in Wales towards accessing business finance and forms part of a second phase of the Women's Enterprise Wales project, delivered by Chwarae Teg.

The study focused on the attitudes of women entrepreneurs in Wales towards accessing business finance and how this influences the overall demand for finance and it became apparent from the fieldwork undertaken that there are a range of attitudes towards business finance. Some female entrepreneurs are very adept and confident at dealing with financial institutions and planning their business finance. However, both the survey and the focused discussion groups revealed that there are also practical and perceptual hurdles to be overcome by women accessing business finance and that many businesswomen hold negative perceptions of finance institutions.

Review of Previous Literature

The research report begins with a detailed review of previous studies examining women's access and attitudes to business finance. The key findings are that:

- Women are less likely than men to start a business.
- A key factor for the gap identified between male and female business start-up rates is the ability to access finance.
- Whilst it is difficult to say whether women are more risk averse to men in terms of business finance issues, it is possible to highlight that female entrepreneurs exhibit risk averse behaviour. This may be as a result of the characteristics and circumstances of the female entrepreneur as opposed to genuine differences in the risk profile between men and women in business.
- Personal circumstance, such as credit history, can affect the ability of female entrepreneurs to access finance.
- Experience is also an important factor in the ability of entrepreneurs to access finance.
- Differences in the characteristics and circumstances of female entrepreneurs in comparison with their male counterparts have a significant influence on their ability to access finance.
- It is difficult to assess whether financial institutions discriminate between men and women with regards to supplying finance. However, the ambiguity of research suggests that many female entrepreneurs may believe that some institutions do discriminate between male and female entrepreneurs.
- Female entrepreneurs are less likely to access informal business networks.
- Female entrepreneurs are more likely to turn to friends and relatives for finance as opposed to formal finance institutions.

- Whilst women in Wales were less likely than other groups (such as Welsh speakers and ethnic minorities) to access funding via a grant funding body, they were also the most likely group to receive grant funding.

Research Findings

A postal survey was undertaken during the summer of 2005, with clients supported by Chwarae Teg and women supported by other pre business start organisations all being contacted by post. In parallel with the postal survey questionnaires were also made available via ten business support agencies across Wales and in total 181 women responded to the survey. Once the initial survey findings were gathered the results were ratified and expanded on through a series of six focus groups with current and potential women entrepreneurs held across Wales. he research outcomes outlined in the Research Findings chapter draw upon the results of both the survey and the focus groups.

Experience of accessing finance

The attitudes of current or prospective female entrepreneurs towards business finance are usually influenced by either their own experiences, the experiences of others or information gathered from various sources. It is important therefore that we gain an insight into these sources and to their previous experience. This section assesses the previous experience of respondents in terms of accessing personal as well as business finance.

The proportion of women surveyed that had applied for business finance was quite low at 32%, however the vast majority of the applications made (79%) had been successful. Respondents were also more likely to have applied for business finance if they had also applied for personal finance.

Amount of finance accessed

The survey asked those who had successfully accessed business finance to either start or develop their business, whether the amount they had applied for was equal, greater or less than the amount needed. For just over half of the respondents the amount of finance that they had accessed was either equal or greater than the amount they needed, suggesting that they achieved the successful outcome that they sought, however, for 43% of the respondents who had successfully access business finance, the amount of finance that they had secured was less than what they needed. This was either because the source of the business finance was unwilling to offer a larger amount of money or the individual applicant had decided to access less in order to reduce the borrowing risk. Most of those consulted erred on the side of caution in relation to both business and personal finance applications

Sources of finance

Personal savings was the funding route taken by almost three quarters of respondents, which is in line with the findings of other recent studies. Survey respondents were also asked to respond to the statements "'I prefer to build up savings to finance my business instead of borrowing" and "Borrowing money for my business is only something that will be done as a last resort". Almost half of all respondents (46%) strongly agreed with the first statement with a further 40% agreeing with it at least to some extent, suggesting that the vast majority of respondents prefer to wait until they have accumulated enough money, either through personal savings or profits generated by their business, to invest in their business. A similar pattern emerges from the responses to the statement "Borrowing money for my business is only something that will be done as a last resort ", with 78% of respondents agreeing with the statement at least to some extent.

Borrowing money to finance a business is generally something to be avoided was also a view commonly expressed during focus group discussions, although women who operate, or plan to operate, a limited company were less likely to view borrowing money as something to be done as a last resort.

Of those who had accessed finance from other sources over a third (35%) had turned to family and friends, again supporting previous findings. Women with dependent children were more likely to turn to friends and family as a source of finance than women without dependent children

Around a third had received various publicly funded grants or funding, less than one in three (28%) had applied for a bank loan to fund all or part of their business finance needs while a quarter had relied on a bank overdraft. Almost one in five of the respondents (19%) had funded their business requirements on their credit card. Respondents were also asked to specify the main reasons for their choice of finance source. For 43% of those who had chosen the option of accessing finance from family and friends the reason noted for this choice was that it was simply their preferred option while for many the reasons for choosing family and friends was dictated by the amount of money they required.

A key factor for turning to family and friends for over a third was that they needed a relatively large amount of money (in this case defined as over £1,000), suggesting that these individuals may not be confident of being able to access similar amounts of finance from other sources. On the other hand just over one in five reported that they had turned to family and friends as they only needed a relatively small amount of money (in this case defined as being less that £1,000). This is more understandable as accessing relatively small amounts of money from family and friends is likely to be easier than the potentially lengthy administrative process involved in accessing finance elsewhere. However, it is also likely to be a reflection of the difficulties noted by focus group attendees that they had encountered in accessing micro finance. Accessing small amounts of start-up capital had generally proved difficult for a number of women consulted, for example £200 for business cards of flyers. If family and friends are not an option then they are of the impression that the small amount required will not be a sufficiently large to gain the interest of banks either. The availability of micro-credit is an issue for many new businesswomen in Wales.

Many of the focus group attendees had attempted, with varying success, to access grant funding to support the establishment and development of their business and most were of the impression that there was a great deal of public money available to support new businesses in Wales. However, most were also completely unaware of how to access such funding or whether or not such funding actually existed and those who had successfully accessed some public funding to support their businesses had undergone a lengthy trial and error process before they actually found the appropriate source. There was a general consensus that there was a need for greater transparency of information relating to what funding was available.

Perceptions of financial institutions

Personal contacts and the ability to forge positive links with individuals that are considered trustworthy have a considerable influence on the attitudes of women towards business finance. This largely explains the preference of many women to turn to family and friends whom they know and trust as their main source of business finance. Even amongst those that have developed a close working relationship with banks and building societies it is their contact with one or two key individuals within the institution that has forged such relationships. Even in these circumstances women reported that they do not always trust the bank or building society as an institution, but trust the individual with whom they have contact, and that it is at this personal face to face level that the relationship between them and the bank exists. Some negative perceptions of banks were revealed in the survey, with one in five surveyed

agreeing with the statement, “Banks and lending organisations are more likely to offer men business loans and finance compared to women.”

The human aspect of business finance is therefore very important to many business women. Indeed many of the responses gathered during the course of this study refer to the need to ‘humanise all aspects of business finance.’ This would involve using jargon free terminology that relates more to the real circumstances of the business at both the business planning and business operation stage, and help in making the business plan seem more real. The financial aspects of business planning was largely considered to be confusing, tedious and in many cases based too heavily on guesswork in the opinion of focus group attendees. They appreciated that they needed to produce a business plan, and in most cases had done so, but often failed to appreciate the practical relevance of such a plan beyond being a possible vehicle with which to access finance. Many had sought external help to complete the ‘numbers’ aspect of their business planning process and many considered this to be a necessary evil as opposed to an essential and informative aspect of their business activities. In addition a number of attendees displayed a reluctance to take ownership of the plan once they had received external support and did not return to the document to review and update.

Attitudes towards financial risk

Previous studies outline that women on average have a tendency to be more financially risk averse than their male counterparts. Such caution can often ensure that women make better financial decisions and avoid future financial problems. On the other hand strongly risk averse attitudes can potentially limit investment and business opportunities. One of the factors that influences attitudes towards accessing business finance is a concern associated with servicing a debt particularly in relation to the ability to repay the amount borrowed. The vast majority of survey respondents (96%) claimed that they would have worries about their ability to repay a loan. The biggest concern in relation to taking out a business loan or entering into debt would be the ability of their business to support the burden of repayment. This was closely followed by worries and concerns relating to how being unable to service the debt would affect their family. Almost two thirds of the respondents (63%) claimed that this would be a major concern for them while a further fifth claimed that this would cause them at least some concern. This survey finding was echoed in the focus groups and prioritising the family in any decisions about taking on business debts was a common theme. The point was raised in some of the groups that many men have the ability to compartmentalise their lives and activities so that business activities as well as business finance can be regarded as a completely different issue to home life and finances. Many of the women participating in the focus groups did not consider that they could do this to the same degree.

Another concern regarding failure to repay a business debt, raised by over a half of the survey respondents, was that it would influence their overall credit rating. Almost half of the survey respondents reported that potential sudden changes in interest rates has or would cause them to worry a lot about repaying borrowed money while a further 43% claimed that potential interest rate changes worried them a little bit. The requirement to undertake a relatively long term commitment regardless of whether or not they could service the debt was or would be a significant cause for concern for 46% of survey respondents. This suggests that many business women may have a tendency to adopt relatively short term views.

Participants attending the focus groups were also largely in agreement that the potential of not being able to pay staff as a consequence of not being able to service a debt would be a major concern for them. The experiences of some of the focus group participants included borrowing money on a credit card in order to pay staff when the business was struggling and the business owner taking on a part time job outside of the company in order to pay and retain staff. Participants also considered that they would be letting down their small suppliers if their business was to fail. However being unable to pay staff was a concern for only 41% of those surveyed but this apparent conflict in findings can be

explained by the fact that focus group participants were responding to scenarios based upon a business that employed a member of staff while the majority of survey respondents do not currently employ any staff.

Recommendations

The report concludes with a series of recommendations aimed at addressing the issues identified. They are not intended to necessarily increase the demand for business finance amongst business women in Wales, but to increase the information, knowledge and skills of business women in relation to business finance. In turn they are intended to ensure that business women make informed decisions relating to accessing business finance that best serve their needs and the needs of their business. The recommendations are split into practical aspects of training support and guidance that could be offered as well as information support.

Training and guidance

Women entrepreneurs in Wales need to develop a greater understanding of how finance and financial planning relates to their business. Many of the women participating in this study consider that a great deal of good support already exists for women wishing to start a business although there is, in their opinion, scope to focus aspects of this support more directly on financial issues. Furthermore there was a general consensus that further support and guidance relating to finance could usefully be offered to businesswomen at stages beyond the initial start-up stage. It was considered that business and finance needs change considerably as the business grows and develops and as such there is often a need further support to reflect these changes. Some of the other training and guidance suggestions made during the focus groups included:

- A glossary outlining some of the key finance terminology;
- Practical, scenario-based training sessions focused on developing skills and understanding of how finance and financial planning relate to core business activities.
- Information relating to potential business finance sources should be offered at all training courses delivered to business women including during taster courses.
- 'Humanising' business finance through providing opportunities for new female entrepreneurs to meet individuals associated with supplying business finance.

Information

Access to the relevant information is also a key factor that influences the attitudes of women towards business finance. Lack of awareness of financial issues as well as a lack of knowledge of financial sources and opportunities are factors that again influence the attitudes that dictate the level and direction of demand for business finance. Information relating to potential sources of business finance is a key factor to many of the finance access needs identified by women consulted during the course of this study. Recommendations for resolving those issues include:

- Providing details of various sources of finance to cover
    - general points about application procedures and criteria;
    - an overview of some of the pros and cons associated with each source;
    - specific information may be required signposting to potential grants and public funding.
- Information on grants could take the form of an on-line enquiry service linked to a live database. Women accessing the service would be guaranteed up to date details relating to the

availability or otherwise of potential funding sources as well as the eligibility criteria associated with them.

- Providing regular updated information from an independent source outlining forecast interest rate outlooks as well as loan options, such as fixed rate repayment deals etc, would also be welcomed.
- Investigate the potential for establishing a Women's Finance Fund which would exclusively service the finance needs of business women in Wales, and specifically micro-credit needs. This was recommended during focus groups, however the development of a new finance source of this nature would be huge commitment for any one organisation so further research on potential demand is required.

Linked to accessing information is the degree to which women have access to business networks. The issue of networking and connectivity was raised time and again when the groups were asked to offer views relating to areas of support that they would consider beneficial to women wishing to access business finance. Networks were active in many (but not all) parts of Wales but the group participants did not believe that they were used to their optimum potential with regards to sharing ideas and experiences about seeking finance. A member of one of the groups stated that she would have appreciated being part of a small cluster of women who were at the same stage of business start up development in order to share experiences. The groups agreed that contact with other women at the same stage of business development that may have experienced similar finance issues would be beneficial, and may offer opportunities to share finance solutions etc. Organised networking events would also offer the opportunity to introduce individuals from financial institutions and organisations to individual women entrepreneurs and placing a name and a face to an institution would help overcome a number of the negative perceptions identified during the course of this study.