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# ECONOMICS

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*Sociology*

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## Introduction

SMEs make the major contribution to economic growth and employment in the EU. In today's fierce competition the SMEs gradually developed into the dominant force for the national economic and social development (Shuying and Mei, 2014).

Belás, J., Ključnikov, A., Vojtovič, S., Sobeková-Májková, M. (2015), Approach of the SME Entrepreneurs to Financial Risk Management in Relation to Gender and Level of Education, *Economics and Sociology*, Vol. 8, No 4, pp. 32-42. DOI: 10.14254/2071-789X.2015/8-4/2

## APPROACH OF THE SME ENTREPRENEURS TO FINANCIAL RISK MANAGEMENT IN RELATION TO GENDER AND LEVEL OF EDUCATION

**ABSTRACT.** Financial risk management is an important area of management of small and medium-sized enterprises (SMEs). The ability of SMEs to grow highly depends on their potential to invest money to the development of their companies. These investments need capital and therefore an access to internal or external financial sources. Many authors agree that SMEs have restricted access to external sources of financing. The aim of this article is to define and compare important determinants of financial risk in the segment of small and medium-sized enterprises. The research of entrepreneurs' opinions was carried out in 2015 in the Czech Republic, and was focused of the investigation of the influence of such factors as gender and level of education of entrepreneurs on the approach to financial risk management. We found out that three quarters of entrepreneurs in the segment of SMEs in the Czech Republic perceive the intense action of financial risk, but at the same time their ability to properly manage financial risks in the segment of SMEs is not at an appropriate level. The importance of financial risk increased during the crisis, which is reflected in the challenging approach of SMEs to external funding. We found that only relatively small number of entrepreneurs creates the financial reserves in their companies, and so this approach does not have the significant weight in the SME segment. Significant differences in approaches of the SME entrepreneurs to financial risk management in relation to gender and level of education were not identified.

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In the current period of time there exists a strong demand that forces entrepreneurs to bringing new ideas, products and services to the market. If the entrepreneur does not upgrade his product, the product becomes unattractive, which may finally lead to the closure of his company, that is definitely not an aim of any entrepreneur (Rajnoha and Lorincová, 2015). The global economy creates more risks for everyone, but also provides opportunities, forcing businesses to dramatic improvements not only to withstand the competition and thrive, but to survive (Hrašková and Bartošová, 2014).

With the rapid development of market-oriented economy, the SMEs more intensively face fierce market competition. We cannot avoid the fact, that the financial risk exists everywhere and has certain influence on enterprise's management and production. SMEs need to fully understand the characteristics, the present situation and the causes of financial risk in order to survive in the market competition and put forward effective prevention and control measures, and thus lower the possibility of occurrence of risks to ensure their development (European Association of Craft, SMEs, 2007).

Financial risk management has received increased attention over the past years because financial risks, though they are not a core competency for non-financial companies, also influence their business operations, financial performance and future to a large extent. The ability of SMEs to grow depends highly on their potential to invest in restructuring, innovation and qualification. All of these investments need capital and therefore an access to finance (European Association of Craft, SMEs, 2007; Rozborilova *et al.*, 2015).

In this context Putuntica and Bonaci (2013) state that companies' cash flows is especially important for capital markets and investors. The influence of cash flow on investment is stronger for companies with financial constrains because internal capital is not perfectly replaceable with external capital for them.

In this article we examine important factors of financial risk for SMEs in terms of gender and level of education of entrepreneurs and their influence on the approach to financial risk management.

## 1. Theoretical background

Most business decisions are carried out under conditions of uncertainty. It means that uncertainty and randomness exists in the development of conditions for business activities, in the course of these activities, and also in their result does exist. If we are able to quantify the probability of deviation of actual processes and results from the expected level, then we talk about risk. The risk can be thus defined as quantified uncertainty (Fetisovová *et al.*, 2012).

According to Hnilica and Fotr (2009) business risk can be perceived as the possibility that the values of the real business outcomes will differ from anticipated values, while these deviations may be desirable (company achieves higher profits than planned) or not desirable (company suffers loss instead planned profit), where the magnitude of the variation may be variable. The authors specify such types of risk as production, economic, market, financial, credit, legislative, political, environmental, personnel, information risks and force majeure.

Entrepreneurial risk has a complex form, since it includes a number of interconnected partial risks. Fetisovová *et al.* (2012) defines such types of business risk as strategic risk, operational risk, financial risk, sociopolitical risk and reputational risk.

The views of the different authors on the definition of financial risk differ to some extent. For example Fetisovová *et al.* (2012) states that financial risks are related to the financial markets' development and the use of single financial instruments, have a complex nature and can be classified into the following groups: funding risk, credit risk, liquidity risk, the risk of interest rate changes, currency risk, inflation risk and counterparty default risk. Napp (2011) stated that there exist several different forms of financial risks. There are

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external financial risks depending on changes on financial markets on one hand, and internal financial risks, where the company itself is the source of the risks, on the other. External financial risks are based on such risk factors as exchange and interest rates as well as on commodity prices. The author defines these kinds of internal financial risks: financing risk, solvency risk, and liquidity risk.

We may agree with the view of Fetisovová *et al.* (2012), that the field of financial risks is of extreme importance because all business risks are been concentrated in the financial risk of the company, which determines its financial situation. The author also states that the intensity of financial risk during the crisis significantly increased. The research of Economic & Social Research Council (2010) confirms that the credit crisis and ensuing recession have led to both tightening of loan approval thresholds (due to the crisis in financial markets) and increase in default risk (due to the ensuing recession), contributing to the poorer availability of credit. According to our previous findings, Czech entrepreneurs think that banks use overly strict criteria when providing loans (Belás, Demjan *et al.*, 2015).

Financial risk exists always and everywhere, and can't be transferred by men's will. People are unable to avoid and eliminate it, but they can reduce losses and cope with the risk through various technical means, and by developing preventive measures. Financial risk occurs only at a certain period or stage and we are unable to specifically determine the period and phase when it will appear. This illustrates that the financial risk is also uncertain, which requires the enterprise managers to constantly strengthen the consciousness of risk, improve financial management so that they can reduce the possibility of the occurrence of the risk. Financial risk exists in all aspects of the enterprise financial management work including the raise, use and distribution of capital. This requires managers to fully focus on all aspects of the change, identify the risks timely, and take effective measures to control the spread of the risk (Shuying and Mei, 2014).

In the current period of time there is a significant risk of insufficient demand (market risk). E.g. Carson (2013) states that the greatest threats to business of the British SMEs are: weak demand due to economic stagnation (presented by 52% of entrepreneurs), operational cost challenge (37%), inadequate cash reserves (27%), poor access to finance (21%), failure to manage cash flow (17%). According to our previous research the most important business risks which were perceived by entrepreneurs in the Czech Republic in 2013 were as follows: market, financial and personnel risks. Market risk was identified as the key risk by the largest number of entrepreneurs (79.44%) in the Czech Republic (Belás, Bartoš *et al.*, 2014). Average performance decrease was represented by 15.80% in the Czech Republic (Belás, Macháček *et al.*, 2014). The situation is similar in Slovakia, where market risk was identified as the key risk by the largest number of entrepreneurs and the performance of SMEs compared with pre-crisis period have decreased by at least 15% (Belás, Bilan *et al.*, 2015).

The research of the differences in approach of entrepreneurs in terms of gender and education is relatively widespread in the expert literature, because this issue is addressed by a variety of authors.

According to Lim and Envick (2011) there is a significant difference in risk taking between the male and female respondents. Males prefer to be more aggressive when they identify any competitive opportunity to enter the market. Women are not so interested in the growth of their firms; they are satisfied when the company is in a stable condition. However, women are found to be more innovative than men, which is one of their advantages in formation of the new enterprise. In this context Langowitz and Minniti (2007) state that women are more risk averse than men and higher riskiness does not prevent men from starting the business.

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Job satisfaction is much more important motivation factor to become an entrepreneur for the males, while it does not have any significant impact on the females as a motive to become entrepreneur (Verheul *et al.*, 2006).

According Global Markets Institute (2014) while all SMEs face challenges, some barriers are more specific to women-owned enterprises. They review five major constraints for SMEs, highlighting a gender-specific aspect of each: legal and regulatory barriers, access to education and training, microeconomic conditions and macroeconomic environment, culture and traditions, access to finance. A wide range of surveys states that access to credit is reported by SMEs as their biggest constraint in both the developed and the developing world. Evidence also shows that, in general, women-owned businesses have more restricted access to external finance than male-owned businesses.

Carter, Shaw, Lam, and Wilson (2007) have examined the effect of gender in the bank lending process in the small business when the loan applicant is a female or male. They have found that, when considering an application, applicant education plays an important role, lower level of education for female applicant mostly resulted in the rejection of the application. However, when considering the applications of males or females with the higher level of education, the gender criteria for loan processing diminishes.

Garwe and Fatoki (2012) confirmed that gender does not have any significant impact on SME finance. They found no difference in the question of availability of credit from commercial banks to male and female-owned SMEs, hence according to their study it can be said that commercial banks do not differ for male and female-owned SMEs while providing credits. Their research showed that when applied for bank loans both males and females were given same priority while providing loans. The only difference was that females were more discouraged from bank finance than males due to the reason that females were in fear of rejection due to lack of education and lack of personal assets or collateral. The study by North, Baldock and Ekanem (2010) confirms this argument stating that SMEs looking for finance and owned and managed by women were more credit constrained than the men owned SMEs due to the reason that women entrepreneurs assumed that, they will be refused by banks and hence they even did not go to the bank for loans.

The study of Gramage (2013) confirms the general statement that the gender does not have any significant impact on SME finance, when his results also negated the influence of the gender and the experience of the entrepreneur.

Some authors even provide the evidence that female entrepreneurs have a higher probability to get the credit. The empirical research by Drakos and Giannakopolous (2011) found that male owned enterprises are less credit rationed than the females owned enterprises, the result is showing that there is a 2.8% more credit rationing possibility for the female owned enterprises than the male owned. They find that, women are more risk averse than the male and hence they are not willing to take more risk and to take loans.

People with higher level of education are more interested in having their own business (Velez, 2009). They can attract more educated worker to their business and educated worker can positively affect the output as well as productivity of the business (Millian, Congregado *et al.*, 2014).

According to Van der Sluis and Van Praag (2008) higher levels of education such as university, or college level education are significantly related with higher performance of the entrepreneurship in relation to sales or profitability and which is also true for sustainability. People with higher education actively search for new opportunities, which is positively related to higher growth. Higher education of entrepreneurs is in negative relation with their company's business failure. Higher education is an advantage for the entrepreneur to maintain the sustainability of the company and which is the opposite case for those without a higher formal educational background (Rauch and Rijdsdijk, 2013).

Wilson, Kickul, and Marlino (2007) examined the role of self-confidence or self-efficacy as a motivational factor for choosing the entrepreneurship as a future career between men and women in relation to entrepreneurship education. The result shows that, males scored higher (3.69) in self-confidence to become an entrepreneur than their counterparts with a mean score of (3.61). The authors argue that MBA education can give women in the age group of 25-34 years old who are actively seeking to start their career in the entrepreneurship more confidence to become an entrepreneur. The results show that, education like MBA and entrepreneurial training can increase the confidence level of the women to become an entrepreneur. The research also finds that higher education can minimize the significant gap between male and female entrepreneurs' entry to the market and for which a self-confidence gained from the study seems to play the vital role.

In this article we will consider whether there are significant differences in the approach to financial risk management in relation to gender and education of entrepreneurs in the segment of SMEs.

## 2. Research objective, methodology and data

The aim of the article is to define and compare the approach of entrepreneurs to the financial risk management in the segment of SMEs. Within the stated objective, we compared the approach of male and female entrepreneurs with higher education and with the other types of education.

In our study we assessed the attitudes of entrepreneurs to the selected problems of financial risk management: how the entrepreneurs perceive the current intensity of financial risk; how they evaluate their own ability to manage financial risks in their company; how they evaluate the impact of the crisis on financial risk management; what is their attitude to the creation of financial reserves. We assume that the attitudes of entrepreneurs significantly determine their results in the process of financial risk management.

The survey of the quality of the business environment was carried out in the first half of 2015 through a questionnaire on a sample of 1,141 respondents from the Czech Republic. The method of choosing companies was as follows. We randomly selected a total of 1650 companies from the Albertina database. These companies were contacted via email, where the business owners were asked to complete a questionnaire, which was placed on the website<sup>1</sup>. In case that the company had not responded to our mail, we addressed it over the phone.

The structure of the respondents was as follows: 75% men, 25% women; 48% of respondents reported that they have secondary education, 34% reported to have the university degree and 18% reported that they have secondary education without graduation; 65% of the total number of companies were micro enterprises, 27% were small enterprises and 8% were medium-sized enterprises. 62% of the companies' owners stated that their company existed for more than 10 years, 21% of them stated that they operated for the maximum of five years and 17% of them reported that their company belonged to an interval of five to ten years of existence.

In accordance with the recommendation of the European Commission no. 2003/361 / EC we separated microenterprises employing 0-9 employees, small enterprises (10-49 employees) and medium-sized enterprises (50-249 employees) within the category of SMEs in the questionnaire.

Respondents were representing the following sectors: trade (33%), manufacturing (23%), construction (14%), transport (6%), agriculture (3%) and other services (39%).

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<sup>1</sup> [https://docs.google.com/forms/d/1U9coaC5JRL0N2QOOO6Xb8j3mnaZXdSM47Kugt4EDGFo/viewform?usp=send\\_form](https://docs.google.com/forms/d/1U9coaC5JRL0N2QOOO6Xb8j3mnaZXdSM47Kugt4EDGFo/viewform?usp=send_form).

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In this article we set out four scientific hypotheses by the method of expert estimation:

H1: Financial risk intensively acts on the business environment. This view is shared by at least 70% of entrepreneurs. There are no statistically significant differences in the responses of entrepreneurs according to their gender and education.

H2: Entrepreneurs can properly manage financial risks in their companies. This view is shared by up to 30% of entrepreneurs. There are no statistically significant differences in the responses of entrepreneurs according to their gender and education.

H3: The importance of financial risk in the crisis grew. This view is shared by at least 60% of entrepreneurs. There are no statistically significant differences in the responses of entrepreneurs according to their gender and education.

H4: Creating of financial reserves represents an important way to minimize financial risk. At least 40% of entrepreneurs agree with this opinion. There are no statistically significant differences in the responses of entrepreneurs according to their gender and education.

Statistically significant differences between the designated social groups were compared through Pearson statistics at significance level of 5%. If the calculated p-value was lower than 5%, we reject the null hypothesis and the alternative hypothesis was adopted. The calculations were made through the free software available at: <http://www.socscistatistics.com/tests>. Statistically significant differences in individual responses were investigated by means of Z-score. The calculations were made through the free software available at: <http://www.socscistatistics.com/tests/ztest/Default2.aspx>.

3. Results and discussion

The results of the research devoted to the assessment of the intensity of financial risk in the current economic environment of SMEs in the Czech Republic are presented in *Table 1*.

Table 1. Assessment of the intensity of financial risk in the Czech Republic by gender and education of entrepreneurs

<i>Financial risk intensively acts on the business environment (poor access to external sources of finance, poor payment discipline, etc.)</i>	Men	Women	UNI	OE	p-value* Z-score Men/Women UNI/OE
1. strongly agree	142	39	49	132	
2. agree	533	171	245	459	0.2380
share in % (1+2)	78.39	<b>75.00</b>	<b>75.00</b>	78.91	0.1336
<b>77.56%</b>					
3. no stance to the problem	120	40	60	100	
4. disagree	62	26	36	52	
5. fully disagree	4	4	2	6	
chi-square/p-value	4.9087		7.0076		
	0.2968		0.1355		

Explanation: UNI – respondents with higher education, OE – respondents with other types of education, \*p-value is calculated as the sum of responses 1 and 2.

H1 was confirmed. We found that at least 77.56% of entrepreneurs presented the view that financial risk intensively acts on the business environment. This statement was mostly presented by the entrepreneurs with lower levels of education (78.91%) and in lesser extent by women and entrepreneurs with higher education (both 75.00%).

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The values of the test criteria (chi-square and p-value) confirmed that there is no statistically significant difference in the overall response rate (p-value = 0.2968 / 0.1355).

We found that there were not statistically significant differences in the affirmative response of the individual business groups. This fact was confirmed by the values of the test criteria (p-value Z-score: 0.2380 / 0.1336).

These results confirm the general statements of Carson (2013), Economic & Social Research Council (2010), and Shuying and Mei (2014).

Table 2 presents the opinions of the entrepreneurs on their ability to properly manage financial risks.

Table 2. Evaluation of the ability to properly manage financial risks by gender and education of entrepreneurs

<i>Entrepreneurs can properly manage the financial risks of their companies</i>	Men	Women	UNI	OE	p-value* Z-score Men/Women UNI/OE
1. strongly agree	12	2	3	11	
2. agree	225	86	96	215	0.2077
share in % (1+2)	27.53	<b>31.43</b>	<b>25.26</b>	30.17	0.0801
<b>28.48%</b>					
3. no stance to the problem	329	94	151	272	
4. disagree	270	89	130	229	
5. fully disagree	25	9	12	22	
chi-square/p-value	3.7300		3.6139		
	0.4438		0.4608		

Explanation: UNI – respondents with higher education, OE – respondents with other types of education, \*p-value is calculated as the sum of responses 1 and 2.

H2 was confirmed. We found that only 28.48% of entrepreneurs agreed with the statement that they can properly manage financial risks of their company. This statement was mostly presented by women (31.43%) and in lesser extent by entrepreneurs with higher education (25.26%).

The values of the test criteria (chi-square = 3.7300 / 3.6139 and p-value = 0.4438 / 0.4608) confirmed that there is no statistically significant difference in the overall response. We found that there were not statistically significant differences in the affirmative response of the individual groups of entrepreneurs according to their gender and educational level (p-value Z-score: 0.2077 / 0.0801).

These results do not confirm the general statements of Garwe and Fatoki (2012) and North, Baldock and Ekanem (2010) that women are less confident in their ability to manage business properly, and are more risk averse and do not confirm study by Lim and Envick (2011), Langowitz and Minniti (2007), Global Markets Institute (2014), Carter, Shaw, Lam, and Wilson (2007), North, Baldock and Ekanem (2010), Drakos and Giannakopolous (2011) Van der Sluis and Van Praag (2008). Our results partially confirm some conclusions by Gramage (2013) and Garwe and Fatoki (2012).

The surprising finding is that entrepreneurs with a higher education reported that they are able to properly manage financial risks of their company with the lower intensity. We cannot exactly explain this fact, but we believe that these entrepreneurs better understand the complexity of financial risk management in the dynamically developing world and therefore realistically evaluate their own capacity to correctly manage the financial risks on the company.

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Table 3 presents the views of the entrepreneurs according to defined criteria (gender and education) to the development of the financial risks during the crisis.

Table 3. The importance of financial risk in times of crisis – a view of entrepreneurs according to their gender and education

<i>The importance of financial risk during the crisis increased</i>	Men	Women	UNI	OE	p-value* Z-score Men/Women UNI/OE
1. strongly agree	43	16	22	37	
2. agree	535	167	232	470	0.5823
share in % (1+2) <b>66.70%</b>	67.13	65.36	<b>64.80</b>	<b>67.69</b>	0.3222
3. no stance to the problem	235	83	118	200	
4. disagree	45	12	19	38	
5. fully disagree	3	2	1	4	
chi-square/p-value	1.8635		2.3075		
	0.7608		0.6794		

Explanation: UNI – respondents with higher education, OE – respondents with other types of education, \*p-value is calculated as the sum of responses 1 and 2.

H3 was confirmed. We found that 66.70% of entrepreneurs stated that the importance of financial risk in the crisis grew. This statement was mostly presented by the entrepreneurs with lower education (67.69%) and in lesser extent by entrepreneurs with higher education (64.80%).

The values of the test criteria have confirmed that there are no statistically significant differences in the overall responses and even the structure of affirmative responses by gender and education of the businessmen.

Our results are compatible with the findings of Fetisovová *et al.* (2012), Carson (2013), and Economic & Social Research Council (2010).

In this context Bain & Company, Inc. and The Institute of International Finance (2013) state that there are SMEs in the middle ranges of credit risk that are currently not able to access financing. These companies include younger firms, start-ups and viable older companies with manageable but still elevated debt.

In the study by Carson (2013) there were presented a very interesting conclusions. The past five years of economic stagnation and volatility have forced UK small and medium-sized enterprises (SMEs) to undertake the most significant adaptation and shift in management behavior in decades. SMEs have become stronger through diversification and deleveraging, in addition to more operationally resilient and better prepared to manage economic challenges and the new risk landscape. In general, SMEs seem cautiously optimistic about the future. SMEs have undertaken the biggest management-behavior shift in a generation – adopting a more strategic approach to risk and taking a longer-term view on financial planning, debt, business continuity preparation and building reserves.

This trend was also confirmed by the results of our previous study in which we found that 95% of entrepreneurs from the Czech Republic stated that they had believed that their company would survive in the next five years. (Belás, Macháček *et al.*, 2014)

Table 4 presents the results of the research on the creation of financial reserves by entrepreneurs.



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Table 4. Attitude to the creation of financial reserves of entrepreneurs according to their gender and education

<i>Entrepreneurs minimize the negative impact of the financial risks by creating reserves</i>	Men	Women	UNI	OE	p-value* Z-score Men/Women UNI/OE
1. strongly agree	21	9	9	21	
2. agree share in % (1+2) <b>45.05%</b>	366 44.95	118 45.36	156 <b>42.09</b>	328 46.60	0.9045 0.1471
3. no stance to the problem	257	82	126	213	
4. disagree	196	64	92	168	
5. fully disagree	21	7	9	19	
chi-square/p-value	0.5162 0.9719		2.5926 0.6281		

Explanation: UNI – respondents with higher education, OE – respondents with other types of education, \*p-value is calculated as the sum of responses 1 and 2.

H4 was confirmed. Research has shown that 45.05% of Czech entrepreneurs consider creating financial reserves to be an important method to minimize financial risk. This statement was mostly presented by the entrepreneurs with lower education (46.60%) and in lesser extent by entrepreneurs with higher education (42.09%). The values of the test criteria have confirmed that there are no statistically significant differences in the overall responses and even the structure of affirmative responses by gender and education of the businessmen.

We found in our research that the creation of financial reserves does not have the significant weight in the business sector, which is probably related to the personal characteristics of the entrepreneurs, where the propensity to risk taking is usually dominating (Kvietok, 2013; Deáková, Drážovská *et al.*, 2010).

## Conclusion

Management of financial risk in business is a major area of managerial skills as it significantly determines the current and future financial performance of the company.

In our research, we found that three quarters of entrepreneurs in the segment of SMEs in the Czech Republic perceive the intense action of financial risk.

At the same time, we found that the ability to properly manage financial risks in the segment of SMEs is not at an appropriate level. Obviously, this is a relatively complex and dynamic field of management, but also very important to the future survival of a company.

The importance of financial risk during the crisis increased, which is reflected in the challenging approach of these companies to external financial sources.

We found in our research that the creation of financial reserves does not have the significant weight in the business sector, because the number of entrepreneurs who presented this approach was relatively low. The comparison of the approach to the significant financial risk factors in relation to gender was a part of the research. Significant differences in the attitudes of entrepreneurs by gender and education were not identified.

Male and female entrepreneurs and entrepreneurs, independently of the level of education rated the current trend of financial risks in the business environment, the ability to manage financial risk and their approach to the creation of financial reserves quite similarly.

Our results refuted the arguments of several authors who reported that there are differences by gender and education in approach to the management of credit risk in SMEs.

The study has some limitations, because it focused only on the selected attributes of financial risk management. Nonetheless we think that our research brings new and interesting scientific knowledge.

In further research, we plan to examine attitudes by gender, education and size of the company in the context of external financing. We will focus on the important attributes of the credit risk management, understanding credit conditions of commercial banks and management of the relationships with the banks in the context of obtaining bank loans.

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