

Some Entrepreneurs' Characteristics and Cameroonian Small and Medium Size Enterprises' (SMEs) Access to Credit

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Article History

Received: 08.12.2022

Accepted: 19.01.2023

Published: 27.01.2023

Abstract: Research on access to finance of large enterprises has been flourishing in the finance literature while studies relating to small and medium size enterprises have been less common in Sub-Saharan African countries specifically. In this research we investigate the link between some entrepreneurs' characteristics (experience, gender and perception of entrepreneur) and Cameroonian SMEs access to credit. This study used the World Bank Enterprises Survey data from 324 Cameroonian SMEs. From descriptive analysis and Independence sample T-test, we found that gender is relevant to explain SMEs' access to credit. Program policies aimed at SMEs' entrepreneurs must encourage female entrepreneurs to diversify their financial resources through external formal financial resources.

Keywords: Access to credit, Gender, Small and Medium-size Enterprises.

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1. INTRODUCTION

The importance of Small and Medium-sized Enterprises (SMEs) is recognized worldwide. SMEs provided the economic foundation on which the different countries were built. SMEs are creating new jobs; contributing to economic growth in terms of GDP and exportations. SMEs are more flexible than Large Enterprises (LEs) in the products and services they offer. Most real product innovations come from SMEs (Hatten, 2012). In Cameroon, SMEs have been identified by the government as a pillar of the Cameroon National Development Strategy 2020-2030 (Ministry of Economy, Planning and Regional Development, 2020). Again, SMEs have been identified by Cameroonian authorities as key tools in view to increase job opportunities as well as to reduce the unemployment rate. The definition of SMEs varies according to continents, countries and institutions. In Cameroon, several institutions have defined the SMEs. According to the National Institute of Statistics (2010), SMEs are classified into four categories namely: Informal Production Units (IPU),

Very Small Enterprises (VSEs), Small-sized Enterprises (SEs) and Medium-sized Enterprises (MEs).

Despite their contributions to economic growth, SMEs are still constrained with the limitations in operating their businesses. Among those challenges, there are: the limitation in skills and technology, lack of capital, lack of access to the market etc... However, the major constraints they are encountering are mostly the lack of adequate financial resources. According to Beck (2007), one of the primary causes of SMEs failure is the non-availability of external finance. Owusu *et al.*, (2017) emphasize the importance financial resources in development and success of SMEs.

Internal and external sources of finance are needed for SMEs at the different stages of their life cycle. SMEs can rely also on formal and informal sources of finance. Because of the limitations of internal and informal financing respectively, SMEs

Citation: Noumigue Guy Roland Kenmegni (2023). Some Entrepreneurs' Characteristics and Cameroonian Small and Medium Size Enterprises' (SMEs) Access to Credit; *Glob Acad J Econ Buss*, 5(1), 1-12.

must fulfill conditions to be eligible for formal loan. Thanh *et al.*, (2011) suggested that factors determining access to finance of firms can be divided into four main groups: Owner's characteristics, firm's characteristics, firm's location, and ownership types. In another hand Nguyen *et al.*, (2015) identified four main groups of explanatory factors namely: owner/manager characteristics, SMEs characteristics, creditworthiness and networks. Considering the crucial role that entrepreneurs play in SMEs creation, growth and survival and view the fact that lenders pay attention to the characteristics of entrepreneurs and sometime related the SMEs to their owner, it is therefore necessary to investigate the influence of entrepreneurs' characteristics on SMEs' access to credit. Chandrayanti *et al.*, (2020) demonstrate the important of the role of small business performance in mediating the effect of entrepreneurial characteristics on credit access. This study seeks to enhance the understanding of the influence of some entrepreneur's characteristics on SMEs access to credit in Cameroon. The rest of this paper deals successively with literature review, methodology, results and conclusion.

2. LITERATURE REVIEW

This section successively presents the conceptual, theoretical and empirical review of the related literature on the subject under study.

2.1 Entrepreneurs characteristics and informational asymmetric

Schumpeter (1934) defines an entrepreneur as a person making new combinations causing discontinuity. The realization of new combinations may include a new product or a quality of a product, a new method of production, finding a new source of raw materials or reorganization of the industry. According to Leibenstein (1968), an entrepreneur is a person who owns all the necessary resources to produce and launch on the market a product which responds to a market deficiency. Hisrich (1990) defined that an entrepreneur is characterized as "someone who demonstrates initiative and creative thinking, is able to organize social and economic mechanisms to turn resources and situations to practical account, and accepts risk and failure"

According to Islam *et al.*, (2011), the entrepreneur characteristics referred to demographic characteristics, individual characteristics, personal traits, entrepreneur orientation and entrepreneur readiness. Entrepreneurial characteristics are those traits or attributes that are specific to the owner of the firm which can impact on the performance of the firm negatively or positively (Fatoki & Asah, 2011).

Myers (1984) identifies informational asymmetry and incomplete information between borrowers and lenders as a key financing problem for SMEs. Regarding the access to external financial resources, SMEs are riskier than Large Enterprises (LEs). The scarcity of public information together with the more informal and opaque status of SEs constrain their ability to attract investors. Avery *et al.*, (1998) demonstrated that lenders base their lending decisions on the creditworthiness of Small Enterprises (SEs) owners rather than on less reliable information on the business itself. According to Mester (1997), SEs loan performance is better predicted by the characteristics of business owners rather than the business itself. In addition, Ortiz-Molina and Penas (2008) stated that lenders base their credit decisions on entrepreneur's characteristics and ability, since it is difficult to distinguish firm finances from owner finances.

2.2 Access to credit

Capital structure decisions, relate to the use of either equity or debt or both. In order to keep full ownership and control of their businesses, SMEs owner-managers may prefer to seek debt financing rather than external equity. Several studies defined the access to credit Kira & He (2012) defined credit access as the ability to get credit for financing business. Defining the access to finance, Claessens and Tzioumis (2006) stated that, access to finance refers to the availability of supply of quality financial services at a reasonable cost. In addition, Akudugu *et al.*, (2009) are of the view that, access to credit is a situation in which individuals have the rights to make decisions related to the allocation in the short term and repay according to the schedule and interest rate committed. Finally, Credit access can be defined as the ability and the will of the owner/manager of business to obtain credit (Ogubazhi & Muturi, 2014), and also the ability of the company to obtain and use financial services which can be used according to the need (Claeseens, 2006).

2.3 Entrepreneurial characteristics and access to credit

This study questions the relationship between experience, gender, perception of the entrepreneur and access to credit for SMEs.

2.3.1. Experience of entrepreneur and access to credit

Politis (2008) viewed entrepreneur experience as an asset with regard to resource allocation decisions, including accessing financing facilities from banks. Research on the impact of entrepreneurs' education (training) and experience on the access to finance of SMEs, showed mixed results. Gamage (2013) found that access to bank

finance is not determined by experience of owner-managers. Rand (2007) exhibited that entrepreneur's education is significant but negatively related to credit accessibility because owners with better knowledge are more likely to know if their application will be rejected. Therefore, they choose not to apply for credit in the first place. Using logistic regression model on a sample of Lybian SMEs, Abdulsaleh and Worthington (2018) showed that owner-manager education have positive signs which indicates positive relationships with predicted probability of the application and hence increasing the likelihood that the application will be successful and vice versa. In addition Kuruppu & Azeez (2016) indicated that education and experience of the owner is a major determinant of Sri Lankan SMEs access to finance. Nguyen *et al.*, (2015) found similar results in Vietnam. Hence the following hypothesis is formulated:
H1: SMEs' entrepreneur experience is significant in distinguishing their access to credit

2.3.2. Gender of the entrepreneur and access to credit

According to Carter *et al.*, (2007), there are two main reasons for women's lesser likelihood of using external debt finance: Firstly the structural dissimilarities between male and female owned firms and secondly the gender discrimination in the supply and demand side factors. Verhuel and Thurik (2001) emphasized the relevance of gender in behaviour of humans in financing decisions. Coleman (2007) demonstrated the credit discrimination against female entrepreneurs as they were more frequently charged higher interest rates and asked to pledge additional collateral in order for loans to be granted. In addition, Hokkane *et al.*, (1998) highlighted that females rely more on personal savings to finance their business. Gamage (2013) found that access to bank finance is not determined by gender of the SMEs owner-manager in Tanzania. Nguyen *et al.*, (2015) on their part, identified gender among the factors affecting the SMEs' ability to borrow. These views led to a second hypothesis:

H2: Entrepreneur gender is significant in explaining SMEs' access to credit.

2.3.3. Perception of entrepreneur and access to credit

According to Kwong *et al.*, (2012), perception is important because it often comes before real action and such perceptions, even when false, can be as damaging as the presence of an actual barrier. Focused on entrepreneurship and entrepreneurs' perceptions on difficulties in accessing finance, Wyer *et al.*, (2007) showed that it is important to recognize that individuals might adjust their personal constructs and thus their

perceptions, beliefs and expectations in the face of a new experience and might choose not to borrow based on the perceived difficulties in accessing finance. The entrepreneurs' perception of access to finance might positively or negatively influence the decision of potential SMEs borrowers to voluntarily decide not to apply for a credit despite having feasible projects which were credit worthy (Gamage, 2013). The concept of 'discouraged borrowers' identified by Kon and Storey (2003), revealed that finance gaps might arise when entrepreneurs' perceptions were influenced by their own and others' experiences of applying for external finance. Several studies revealed the significant role play by entrepreneurs' perception on firm access to finance (Hamilton & Fox, 1998; Gamage, 2013). This therefore brings out the following hypothesis.
H3: The perception of entrepreneur significantly influences SMEs' access to credit.

3. METHODOLOGY

This study used a cross-sectional, quantitative, descriptive research design. The data used for analysis are sourced from the World Bank Enterprise Survey (WBES) on Cameroon. This survey is the most recent one on SMEs carried out by the World Bank on Cameroon.

The workforce is the main criterion used by World Bank Enterprises Survey to denote firms' categories. This research has focused primarily on the annual turnover to define the different categories of SMEs. SMEs are defined as follows. Very Small Enterprise (VSEs) have a turnover of 30 million CFA Francs maximum, Small Enterprises (SEs) have a turnover between 30 and 100 million CFA Francs and Medium Enterprises (MEs) have a turnover between 100 million CFA Francs and 1 Billion CFA Francs. The study covers 324 SMEs that can be found in one of the three SMEs' categories, namely VSEs (58.6 % (190)), SEs (20.7 % (67)) and MEs (20.7% (67)). Those SMEs belong to different sectors of activity, manufacturing (30.6%), retail (34.2%) and other service (35.2%). and they are located in the Center (43.2%), Littoral (37%) and West (19.8%). The entrepreneur gender is distributed as follows: male (83.6%) and female (16.4%). The entrepreneur experience and perception of the access to finance as an obstacle have been redefined to obtain 2 subgroups subsequently. Regarding SMEs' entrepreneur experience, these SMEs are distributed as follows: entrepreneurs with the highest experience represent (44.9%) while those with the lowest experience represent (55.1%). 52.2% of entrepreneur perceive finance access as null, minor or moderate obstacle (Less important) while 47.8% perceive finance access to finance as major or very severe obstacle (Very important).

Apart from entrepreneurs characteristics, the WBES also collects data on SMEs financial sources, both internal (equity) and external (banks, other financial institutions, supplier credits and other external sources like friends and relatives). This research is however limited to formal debts financial sources. The study excludes credit from

non-bank institutions, informal and semi-formal debt financial sources. The access to credit is given in proportion, but for the purpose of the study, this variable was redefined. Table 1 presents the definitions and measures of selected entrepreneurs' characteristics and access to credit.

Table 1: Study's variables definitions

Variable	Definitions
Access to Credit	A dummy equal to 1 if the proportion of firm's fixed (or current) assets financed through bank debt is greater than 0 and 0 if the proportion of firm's fixed (or current) assets financed through bank debt is equal to 0.
Gender of entrepreneur	A dummy equal to 1, 2 for female and Male
Experience of Entrepreneur	A dummy equal to 1, 2 for Highest experience and Lowest experience respectively
Perception of entrepreneur	A dummy equal to 1, 2 for Less important and Very important respectively

Source: Author

Descriptive statistics (means) and Statistic test of comparison the Independent Sample T-Test are used to evaluate and distinguish SMEs' Access to credit. The data analysis yielded useful results.

4. RESULTS

This section on results includes the following: descriptive statistics on Cameroonian SMEs access to credit and the result of different research hypotheses, obtaining thanks to the independent t-test (Table 2).

4.1 A descriptive statistics on SMEs Access to credit:

The results on the statistics SMEs access to credit shows that 26% of SMEs have access to short term credit, this proportion is higher than that of SMEs have access to long term credit (6%). It should be noted that SMEs have more access to short term credit as compared to comparing with the long term credit. Finally, the proportion of SMEs that have access to short or long term credit is 27%.

4.2 SMEs' entrepreneurs with higher and lower experience present similarities in terms of access to credit

As seen from the Independence T-test summary result in Table 2, the SMEs' entrepreneur experience was divided into 2 subgroups being highest and lowest experience. The calculated proportion for each of the subgroup includes: Highest and Lowest entrepreneur experience. The proportion of entrepreneur with the highest experience who have access to credit (33%) is higher than that of entrepreneurs with lower experience who have access to credit (23%), but this difference is not statistically significant. This simply means that hypothesis H1 is not supported. This finding is not in line with former studies (Kuruppu & Azeez, 2016; Abdulsaleh & Worthington, 2018), this

shows a non-significant correlation between SMEs entrepreneur experience and their access to credit. Experience is not a determining factor in SMEs access to credit in Cameroon.

4.3 Male entrepreneurs have a significant higher access to credit than female entrepreneurs.

Independence t-test summary, comparing SMEs' access to credit regarding their gender is exhibited in Table 2. 30% of SMEs headed by male entrepreneurs have access to credit; this proportion is higher than the proportion of SMEs headed by female entrepreneurs, which stands at 16%. This difference is significant at the level of 5%. Based on this, hypothesis H2 is therefore verified. This result confirms the ideas brought forth by Nguyen *et al.*, (2015). With this finding it should be noted that females rely more on personal savings to finance their business.

4.4 SMEs' entrepreneur perception does not influence their Access to credit

Table 2 exhibits the summary results of Independence T-Test analysis between the perception of entrepreneur and SMEs' access to credit. An observation of the respective levels of the subgroups shows that, the proportion of SMEs' who have access to credit and belong to the group of entrepreneur with very important perception of credit access as an obstacle (31%) is greater than the proportion SMEs' who have access to bank loan and belong to the group of entrepreneur with less important perception of credit access as an obstacle (25%). This difference is not statistically significant between the subgroups of SMEs entrepreneurs. Thus hypothesis H3 is rejected. Therefore the entrepreneur perception of the access to credit as an obstacle is not significant in differentiating SMEs' access to credit. This finding is not consistent with

previous studies (Hamilton and Fox, 1998; Gamage, 2013).

Table 2: Independent t-test findings summary

Variables	Categories	Mean	t-value
Entrepreneur Experience	Highest	0.33	1.945
	Lowest	0.23	
Entrepreneur Gender	Female	0.16	-2.077 **
	Male	0.30	
Entrepreneur Perception	Less Important	0.25	-1.217
	Very Important	0.31	

Bold and Italic: The category or group with the greatest mean; ** Significant at 5%.

Source: Author

5. CONCLUSION

The objective of this paper was to investigate the influence of some entrepreneurs' characteristics (experience, gender and perception) on the Cameroonian SMEs' access to credit. The secondary data issues from World Bank Enterprise Survey (WBES) carried out on Cameroonian firms were used for this purpose. The analysis on 324 SMEs were carried out through descriptive analysis and Independence Sample T-test. This study has shown that gender is a relevant factor distinguishing SMEs' access to credit. Program policies aimed at SMEs' entrepreneurs must encourage female entrepreneurs to diversify their financial resources through external formal financial resources. Financial institutions should develop specific products and services to attract female entrepreneurs.

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