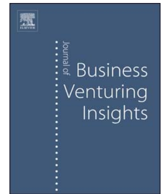
Journal of Business Venturing Insights 10 (2018) e00096

Contents lists available at ScienceDirect

Journal of Business Venturing Insights

journal homepage: www.elsevier.com/locate/jbvi



Bank lending and financial discrimination from the formal economy: How women entrepreneurs get forced into involuntary bootstrapping

Malin Malmström*, Joakim Wincent

Department of Economics and Technology and Society, Luleå University of Technology, SE-971 87 Luleå, Sweden

ABSTRACT

The role of banks, their decision models, and their linkages with how entrepreneurs can act as providers to the formal economy have not been focused on much in entrepreneurship research. We explore the trend of transaction-based lending among banks on entrepreneurs' engagement in informal economic activities (or involuntary bootstrapping activities) and how that relationship is moderated by gender. The results show that women entrepreneurs who encounter banks with transaction-based lending are forced to engage in much more informal economic activities compared to men, while this gender bias vanishes when entrepreneurs face banks with relation-based lending. We associate these results with gender stereotyping and suggest transaction-based lending to be costly for the development of formal economies.

1. Introduction

Banks have been acknowledged as the most important external financiers for entrepreneurs (Berger and Udell, 2006; Black and Strahan, 2002), but they are also important for a well-functioning economy because they align the formal economy with the way in which resources, and thus how entrepreneurs, engage in the development of the welfare in the formal economy (Messner and Rosenfeld, 2001). A change in the distribution of formal economy resources, such as in banks, and their decision models for capital distribution will likely affect the levels of illegal or illegitimate behavior outside the formal economic system (Messner and Rosenfeld, 1997). Indeed, research has argued that the choice to pursue a marginally accepted or illegitimate behavior to achieve an end, such as venturing, is particularly likely when a formal system prevents individuals from achieving their goals (Merton, 1968). One such deviant behavior is involuntary bootstrapping, which may become necessary when entrepreneurs are forced to engage in marginally accepted or illegal financial solutions. We need to explore such a mechanism to determine how formal institutions, and banks specifically, can better include various social categories of individuals in the formal economy and to ensure secure, efficient, and stable formal institutions.

There is a lack of studies focusing on the informal economy from an entrepreneurial perspective (e.g., De Castro et al., 2008; Khavul et al., 2009; Siqueira and Bruton, 2010; Webb et al., 2009), and to our knowledge, only a very limited number of studies have focused on the role of gender in individuals' engagement in deviant behaviors or activities that involve the informal economy. To address this research gap, this article investigates the determinants of banks' decision-making models and gender on entrepreneurs' participation in informal economic activities. We focus on two different lending models in the banking sector to test hypotheses predicting the criterion for women and men entrepreneurs' involuntary engagement in informal economic activities (i.e., financial

* Corresponding author.
E-mail addresses: malin.malmstrom@ltu.se (M. Malmström), joakim.wincent@ltu.se (J. Wincent).

https://doi.org/10.1016/j.jbvi.2018.e00096
Received 1 June 2018; Received in revised form 12 July 2018; Accepted 19 July 2018
2352-6734/ © 2018 The Authors. Published by Elsevier Inc. This is an open access article under the CC BY-NC-ND license (http://creativecommons.org/licenses/BY-NC-ND/4.0/).

bootstrapping activities). We study the effects of the transaction-based lending model, which the majority of banks use when centralizing bank functions. This is the dominant model and current trend in banking and has led many banks to focus on large cities as well as decrease or completely withdraw from local representation. We develop and test a set of arguments suggesting that when formal institutions, such as banks, are not available for entrepreneurs, they have to turn to involuntary bootstrapping and engagements in the informal economy, and that this lack of availability is most pressing for women entrepreneurs.

2. Literature background

2.1. Engaging in informal economic activities as a response to denied access by the formal economy

We set out to examine the effects of banks' decision-making models on entrepreneurs' engagement in informal economic activities. The informal economy refers to entrepreneurs' use of informal/local economic activities when they have been excluded by formal institutions or are unable to satisfy formal market standards (Sutter et al., 2017; Webb et al., 2014). Such activities occur outside formal institutions and are guided by prescriptions of the informal norms, beliefs, and values underpinning "more-or-less taken-for-granted repetitive social behavior" (Webb et al., 2009) that follows alternative notions of what is socially acceptable and provides alternative structures for economic activity (North, 1990). An increase of entrepreneurs who engage in informal economic activities may highlight problematic consequences of institutional and regulatory changes in the formal economy. By attempting to achieve venture success, such changes may force entrepreneurs to break or depart from formal rules and redefine existing norms and notions. Such deviations may create value, but entrepreneurs will operate outside society's laws and regulations in the informal economy when doing so (Webb et al., 2009). In fact, informal economy activities have been referred to as the underground or shadow economy, describing economic activities that are outside formal institutional boundaries but remain within informal institutional boundaries (Castells and Portes, 1989; Webb et al., 2009). These activities, while on a floating grey scale from legal to illegal and from visible to invisible, often remain legitimate for an entrepreneur and a large portion of an entrepreneur's stakeholders (Rutherford and Buller, 2007; Webb et al., 2009). Entrepreneurs can be required to look for financial solutions outside formal economic institutions when they are denied access to formal financing (Messner and Rosenfeld, 1997). In line with Merton (1968), we posit that deviant behavior can emerge when an entrepreneur lacks access to formal finances, leading the entrepreneur to use informal means to achieve his or her goals.

The activities commonly included in the literature on the informal economy are closely associated with those described in the entrepreneurship literature as bootstrapping (e.g., Carter and Van Auken, 2005; Winborg and Landström, 1997), bricolage strategies (Baker and Nelson, 2005; Garud and Kamoe, 2003), and resource cooptation (Starr and Macmillan, 1990; Westphal et al., 2006). These streams of research share a focus on how entrepreneurs in resource-constrained environments engage in informal economic activities to acquire necessary resources and how—in doing so—they may exploit others' resources (Freear et al., 1995; Malmström, 2014). The act of bootstrapping represents entrepreneurs' responses to encountering obstacles when trying to acquire resources in the formal economy (Bhide, 1992; Vanacker et al., 2011). As venture survival depends on access to finance, bootstrapping provides informal financing alternatives to ventures that lack access to traditional sources of capital (Van Auken and Neeley, 1996). To cope with reduced access to capital, entrepreneurs devise activities that reduce overall capital requirements, improve cash flow, and take advantage of personal sources of financing to acquire essential resources that minimize the amount of outside debt and equity financing needed from banks and investors (Winborg & Landstrom, 2001). The description of financial bootstrapping captures the grey zone of informal economic activities as these activities range from legal to illegal, legitimate to illegitimate, and visible to invisible. While they are resource-relieving activities, they are also vaguely legal as they may include, for example, forgoing or withholding payments and breaking credit agreements (Webb et al., 2013). Specifically, bootstrapping activities include the use of undocumented workers and trade of services, and tax avoidance, among others (Van Auken, 2003; Ebben and Johnson, 2006; Winborg and Landstrom, 2000). In these ways, bootstrapping includes activities that lay in a grey zone that is linked to illegal and/or illegitimate activities and is aligned with informal economy research (Centeno and Portes, 2006; Portes and Haller, 2005). The informal economy is commonly described as the production of legal goods using processes that are not wholly legal or as unregistered economic activities that produce legal products (Nichter and Goldmark, 2009). It has also been shown that financially constrained ventures generally use all bootstrapping activities and are more likely to use activities that align with illegal and illegitimate activities (Ebben, 2009). When involuntary bootstrapping, which we stress in our study, there is a clear deviation from accepted behaviors, and such activities are clearly the last resort when bank financing is not available.

2.2. Transaction-based lending: The ticket to informal economy activities

Relationship lending refers to relying significantly on "soft" qualitative information collected through social relationships between the banker and the entrepreneur/venture. Such information may include the entrepreneur's character and reliability; the venture's payment and receipt history from previous loans or other bank services to the entrepreneur/venture; or the venture's future prospects based on information from the venture's suppliers, customers, or neighboring businesses. As such, assessing entrepreneurial qualities is at the core of relationship-based lending, which enables the banker to monitor the entrepreneur closely and acquire specific information that is only available to the entrepreneur and the bank (Hauswald and Marquez, 2006). In fact, assessing entrepreneurial qualities, such as the entrepreneur's character, experiences, and merits, has been identified as crucial for banks' decision making (e.g., Berger and Udell, 2002). Research has shown that such assessments require social relationships between financiers and entrepreneurs (Baron and Markman, 2003). These social relationships also enable financiers to gain access to

Download English Version:

https://daneshyari.com/en/article/7425845

Download Persian Version:

https://daneshyari.com/article/7425845

Daneshyari.com