

FINANCIAL KNOWLEDGE & FINANCIAL CONFIDENCE

Closing Gender Gaps in Financing Canadian Small Businesses

Scotiabank
WOMEN
INITIATIVE



Executive Summary

This report advances new insights about gender differences in finance knowledge and confidence among owners of small businesses in Canada. These insights are important as financial knowledge and confidence are key components of financial decision-making.¹ Financial decisions underlie both the success and failure of Canadian small and medium-sized enterprises (SMEs).^{2,3} Financial knowledge is also associated with small business owners' growth intentions,⁴ their ability to acquire and deploy capital,⁵ and their ability to manage the finances of their enterprises.⁶

The Organization for Economic Co-operation and Development,⁷ The World Bank⁸ and other international agencies report that, on average, women do not perform as well as men on tests of financial knowledge. Canada is no exception: on average, men achieve higher scores on tests of financial knowledge than women do.⁹ Women business owners also bring less commercial and financial experience to start-up, compared to men.¹⁰ Financial knowledge, especially when combined with confidence, may impact access issues, including access to financial capital, which act as constraints on business growth.

An understanding about financial knowledge needs relevant to the management of small businesses will enhance the readiness of all small business owners to make well-informed financial decisions. It may also help to explain gender gaps in small business financing in Canada.

To examine associations among gender of business ownership, financial knowledge, financial confidence and financial capital, The Scotiabank Women Initiative™ consulted with two global thought leaders about women's entrepreneurship and small business finance: Dr. Barbara Orser, Deloitte Professor in the Management of Growth Enterprises, and Dr. Allan Riving, Professor Emeritus of Finance, both of the Telfer School of Management, University of Ottawa. Collectively, the team designed a series of innovative metrics and a purpose-built diagnostic to measure objectively small business-related financial knowledge. Research Strategy Group Inc., working in conjunction with Scotiabank®, conducted a survey of 1,000 small to medium-sized businesses or enterprises from across Canada, the analysis of which serve to help inform this report. Educational and financial institutions can use these insights and diagnostics to access and better assist small business clients. This report also informs the commitment of The Scotiabank Women Initiative to support women-owned businesses through education, access to capital and mentorship. A summary of the key findings follows.

Key findings

► Financial knowledge powers business growth, yet gender differences remain

The financial knowledge of women business owners is lower, on average, than that of counterpart men business owners. Even after controlling for systemic differences in age, education, experience and language, women business owners are 56% more likely to be ranked as 'below average' in financial knowledge than counterpart men business owners. Gender differences persist across years of management experience.

Women business owners are also relatively less confident about their knowledge of small business finance: whereas 58% of men business owners self-assessed their level of business-related financial knowledge as 'knowledgeable' or 'very knowledgeable,' only 45% of women business owners did so. Women also perceive financial knowledge to be less important for business growth, compared to men.

► Strategies to drive business growth differ by gender of business ownership

Women and men assess the importance of growing the scale or scope of their businesses similarly to each other. Strategies to drive business growth differ slightly by gender of business ownership. Women business owners tend to rely more on marketing, including selling to new customers, expanding advertising and promotion, and adding new products, services and processes. Men business owners tend to rely more on expanding distribution channels, computerizing operations, training employees and adding specialized employees.

► Women business owners' loan applications are more likely to be approved, but women business owners are less likely to apply for business loans

Among all study participants, 7% of women and 11% of men had applied for a business loan in the 12 months leading up to the survey. Among the subset of participants who needed financing for their firms, 34% of women compared to 47% of men had applied for a loan.

Among loan applicants, 88% of women and 77% of men had their loan applications approved. The finding suggests that, in addition to gender differences in financial knowledge and confidence, women small business owners are less likely to assume the risks associated with debt financing compared to men counterparts. One implication is the need for education programs to alert clients about the importance of financial knowledge to firm survival and growth, and to understand the potential consequences of financial acumen and finance to firm survival and growth.

► Many small business owners do not maintain a business budget

Among all business owners surveyed, 38% do not have a business budget, regardless of the level of financial knowledge or gender. This is a key finding because budgeting is a simple control mechanism that small business owners can use to avoid financial surprises, reduce risks, and which forms the basis for the financial management of a business. Even among owners of small businesses who self-rate their level of financial knowledge as 'knowledgeable' or 'very knowledgeable,' 28% don't have a budget.

► Financial confidence trumps financial knowledge among some financial behaviours

For some financial decisions, financial confidence is a more influential factor than actual financial knowledge. Owners of small businesses who maintain a business budget tend to have more financial confidence, regardless of their assessed level of financial knowledge. Financial confidence differentiates owners of small businesses who, needing finance, do not apply for a loan for fear of rejection, from owners of small businesses needing finance who do apply for a loan (the former are referred to as 'discouraged borrowers'). In other words, men and women who applied for a small business loan were significantly more confident in their financial knowledge compared to counterparts who needed financing but who did not apply. Financial knowledge among loan applicants was relatively lower than that of those who needed financing but who did not apply.



► **Financing preferences**

The majority of survey participants, regardless of firm size or gender, expect to re-invest the firm's cash flows and to use personal savings to finance business growth. Owners of larger firms, compared to owners of smaller firms, are relatively more likely to anticipate using formal sources of financing (for example, personal and business bank loans) and trade credit. Women business owners, in comparison to men counterparts, are considerably less likely to anticipate using trade credit or bank loans—either personal or business—as sources of financing. Regardless of firm size, the likelihood of using almost all of the listed sources of financing is lower among women business owners than among men business owners.

► **Women seek a better understanding of small business finance terms and concepts**

According to women business owners in Canada, the most pressing financial knowledge needs, in decreasing order of priority, are: small business valuation, cash flow forecasting, financial risk management, sources of capital and working capital financing. Financial knowledge domains of secondary need include: financial ratios, liquidity, fixed asset financing, export financing, ways to improve access to credit, debt financing and payroll taxes.

► **There is value in strengthening financial confidence and knowledge**

If women business owners in Canada are to achieve their growth expectations, education and other interventions must focus on both financial knowledge and confidence. It is not sufficient to focus solely on financial knowledge. To empower clients, educators, mentors and trainers must be sensitive and able to respond to the reality of client confidence, experience and learning needs. This infers training materials that alert clients and investors about unconscious biases that may be associated with access to, and use of, finance and small business financial management. It is also crucial to recognize that the ways in which financial knowledge and small business financial management are communicated can enhance, but can also further diminish, confidence.

The report considers the implications of the study findings on small business practice, education and training. The findings indicate that closing gender gaps in small business financial knowledge, financial confidence and financing will further women's economic security.

Table of contents

2	Executive Summary
6	Why are financial knowledge and confidence important?
8	Growth intentions
10	Financial knowledge
12	Business owners' financial knowledge needs
15	Financial confidence
18	Financing preferences
19	Advice about financing small business growth
25	Implications
26	References

Why are financial knowledge and confidence important?

Canada is recognized as a global leader in support of women's entrepreneurship.¹¹ The Global Entrepreneurship Monitor, a 27-nation survey of entrepreneurial activity, reports that relative to most developed economies, the percentage of the Canadian adult working-age population who are nascent or new entrepreneurs is among the highest in the world.¹² To enhance entrepreneurial ecosystems for women business owners in Canada, public and private-sector organizations continue to introduce policies, programs and investments. For example, the Government of Canada's (2019) Women Entrepreneurship Strategy is a \$2-billion investment that seeks to double the number of women-owned businesses by 2025. Corporations and government agencies are working to enhance procurement opportunities available to diverse suppliers, including from women-owned businesses. In 2019, The Scotiabank Women Initiative announced a commitment to allocate \$3-billion in funding to women-led businesses in Canada over three years. Gender-focused investment workshops and women-focused capital funds are striving to support equitable access to capital.



The *Global Entrepreneurship Monitor* reports that, in Canada, women are three times more likely to view start-up as a career option than men do, and that women in Canada are 10% more likely than men to report that they are motivated by 'opportunity' than by 'necessity' at start-up.¹³ In 2018, women-owned businesses contributed \$150 billion to the Canadian economy and employed over 1.5 million people.¹⁴ The primary decision-makers of 25% of Canadian SMEs were born outside Canada.¹⁵ Among SMEs that are majority owned by Aboriginal persons or by visible minorities, one-quarter are majority women-owned. This compares to 15.6% of SMEs that are majority women-owned. Among business start-ups, Statistics Canada (2019b) also reports that majority women-owned businesses: are, on average, smaller; exhibit lower rates of growth of net income and employment; and have lower survival rates and lower labour productivity than counterpart men-owned businesses.¹⁶ Self-employed men are more likely than self-employed women to retain paid help or to be incorporated.¹⁷ Size differences matter because smaller enterprises do not benefit from economies of scale and scope.¹

Explanations about the relatively slower growth of women-owned start-ups include gender differences in financial knowledge, fewer years of experience, and the impacts of constraints on financial capital. International studies conducted by agencies such as The Organization for Economic Co-operation and Development¹⁸ and The World Bank¹⁹ report that women do not perform as well as men on tests of financial knowledge. Canada is no exception.²⁰ Compared to men, women

business owners typically bring less financial management experience to start-up.²¹ Gender differences in inaugural financial knowledge and management experience are reflected in business practices.

These insights are important as financial knowledge and confidence are key components of financial decision-making.²² Financial decisions underlie both the success and failure of Canadian small and medium-sized enterprises (SMEs).^{23,24} Financial knowledge is also associated with small business owners' growth intentions,²⁵ their ability to acquire and deploy capital,²⁶ and their ability to manage the finances of their enterprises.²⁷ Higher levels of financial knowledge are associated with such personal financial behaviour as savings, investing and planning.^{28,29} Individuals with low levels of financial knowledge are more likely to make risky financial decisions.³⁰ Gender differences in inaugural financial knowledge and experience are subsequently reflected in business practices.³¹

Financial knowledge and confidence may impact access to capital, which in turn acts as a constraint on achieving growth aspirations. Business growth requires investment in staff, market development activities, infrastructure and investment in working capital (that is, higher levels of accounts receivable, accounts payable and inventories). Gender differences with respect to access to investment networks, low financial confidence and relatively less knowledge about sources of capital are documented.^{32,33,34} Unconscious biases within financier and applicant communications,³⁵ visual cues,³⁶ and signaling behaviors are also reported.

¹ Small and medium-sized enterprises (SMEs) comprise small (1 to 99 paid employees) and medium-sized (100 to 499 paid employees) businesses. According to Statistics Canada, in 2017 the Canadian economy included 1.18 million employer businesses of which the vast majority were small: 1.15 million (97.9%) were small businesses, 21,926 (1.9%) were medium-sized businesses and 2,939 (0.2%) were large businesses (more than 500 paid employees). Source: Statistics Canada (2019a) Key Small Business Statistics.

Potential gender influences in types of financial knowledge that are particularly relevant to the management of small businesses have not, however, been explored. While small business owners tend to be confident and knowledgeable about the products or services that form the core of their businesses, the same may not be true about their understanding of how to raise financial capital, how to deploy capital, and how to manage a firm's finances.

To inform practice, financing solutions and education, this report employs several sets of resources. The research draws on the findings of an online survey of 1,000 business owner participants, 499 of whom are women.² The survey collected information about the small business owners' growth expectations and strategies, financing intentions, confidence with respect to their knowledge of finance and financial knowledge needs, in addition to firm and owner demographic data. The survey included a purpose-built diagnostic used to assess objectively participants' small business financial knowledge. Data analyses included estimation of econometric models to account for potentially confounding effects of owner and firm characteristics. To situate the study findings, references to peer-reviewed research are cited throughout the report.³ Links to Scotiabank online resources to enhance financial knowledge are embedded in this report.

The study findings about small business owners' growth expectations and intentions follow. The connections among financial confidence, knowledge and decision-making are then described. Building on these insights, the types of finance knowledge that respond to the expressed learning needs of women business owners are presented. The report closes with advice and tips about financing small business growth shared by business owners, and the implications of the study findings. Citations and references are found at the end of the report.

The survey was conducted in October 2019 by Scotiabank, in consultation with Dr. Barbara Orser, Deloitte Professor in the Management of Growth Enterprise, and Dr. Allan Riding, Professor Emeritus, Telfer School of Management, University of Ottawa. Data analyses and reporting reflect collective collaborations of these experts in women's entrepreneurship and entrepreneurial finance and members of The Scotiabank Women Initiative.

**FINANCIAL KNOWLEDGE
REFERS TO FAMILIARITY WITH
SMALL BUSINESS FINANCE
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**FINANCIAL CONFIDENCE
REFERS TO ONE'S PERCEIVED
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FINANCIAL KNOWLEDGE.**

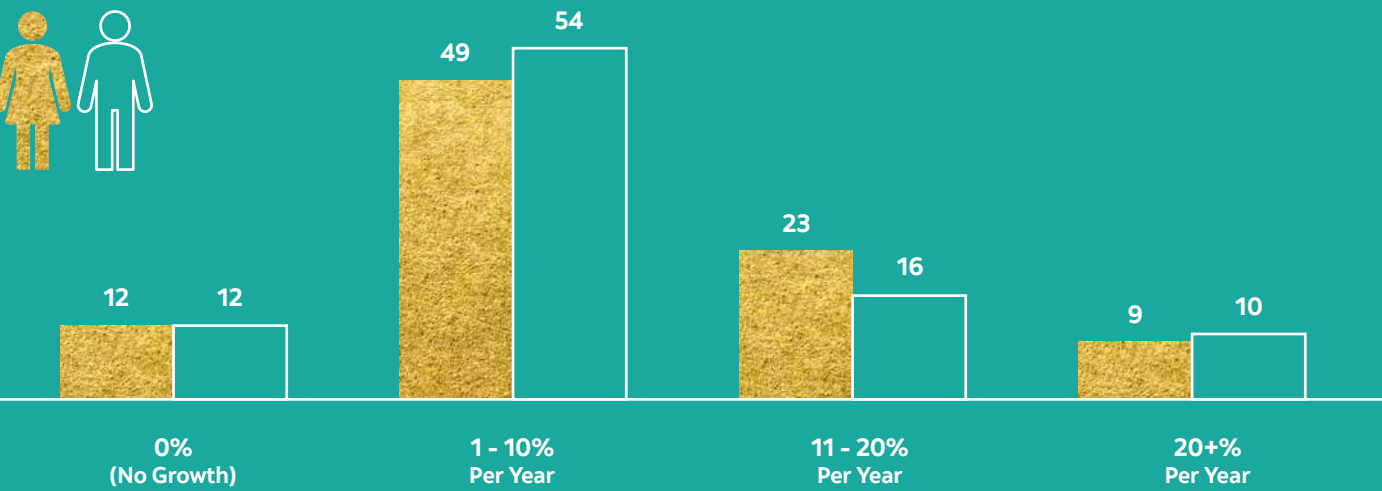
² The sample was comprised of 1,000 participants that included 499 who identified as 'female', 500 who identified as 'male' and one who identified as 'other.'

³ It is important to focus on peer-reviewed research because such research has had to measure up to the comments, challenges and criticisms of anonymous examination of the detailed methodologies and is therefore more authoritative and dependable.

Growth intentions

Canadian small business owners are growth-oriented. Two-thirds of the survey participants—both men and women—perceive that it is important to grow the scale or scope of their businesses: 32% of women business owners and 26% of men business owners expect sales revenues to grow by more than 10% per year.⁴

Annual revenue growth expectations by gender of firm ownership



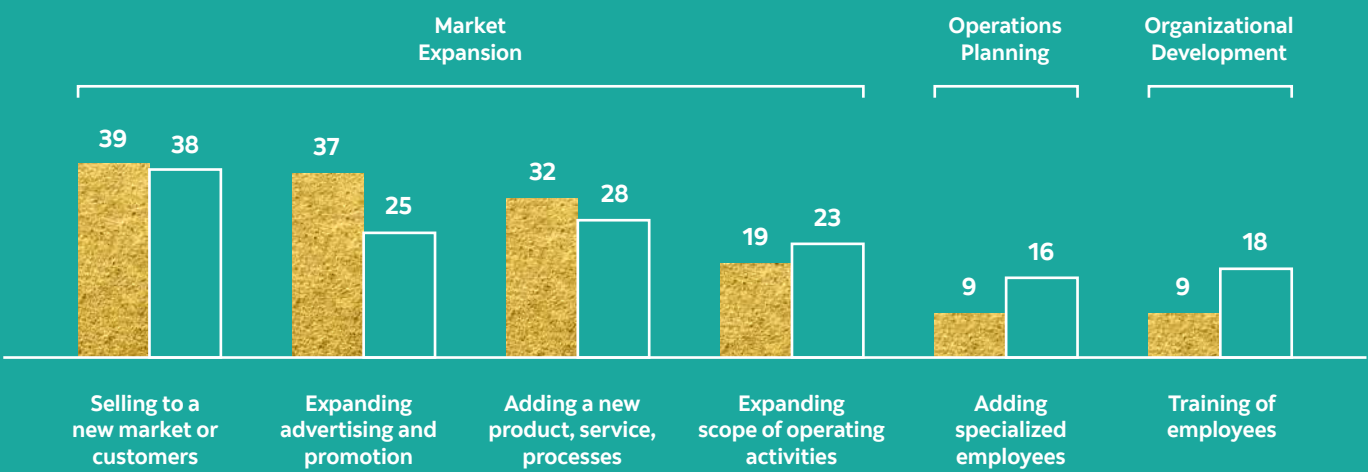
Q12. In the next three years, what is the expected average yearly growth of your business’ or enterprise’s sales or total revenues?

Women and men assess the importance of growing the scale or scope of their businesses similarly to each other. Strategies to drive business growth differ slightly by gender of business ownership. Women business owners tend to rely more on marketing, including selling to new customers, expanding advertising and promotion, and adding new products, services and processes.

Men business owners tend to rely more on expanding distribution channels, computerizing operations, training employees and adding specialized employees.

Studies of entrepreneurial cognition tell us that business owners’ growth expectations and growth strategies reflect many influences.

Strategies for driving growth in the next three years by gender of business ownership



Q14. Please read the list of items above and select the ones that best describe how you intend to grow the scale or scope of your business or enterprise in the next three years? Select all that apply.⁵

How business owners arrive at the decision to grow or to not to grow their businesses involves trade-offs among financial and non-financial considerations.

The weightings accorded the various decision criteria can differ by gender. For example, one Canadian study finds that compared to men, women business owners accord relatively more weight to their perceived level of managerial support and to the opinions of others,

notably a domestic partner, accountant or banker.³⁸ Community recognition, sense of accomplishment, and the anticipated stress of managing family and business responsibilities are also reflected in business owners’ growth intentions. The growth decision is further influenced by owners’ management experience and their perceptions about access to resources, including financial capital.

⁴ In this study, a caveat is that gender differences in growth expectations may be an artifact of firm size: lower revenues or fewer paid employees. Compared to firms owned by men, women-owned firms were smaller in terms of revenues and employees. On average, women owner participants reported 4 paid employees compared to 12 paid employees reported by participating firms owned by men.

⁵ Gundry, L. K., & Welsch, H. P. (2001, p. 462).

Similarly, a UK study reports that gender differences in perceived access to finance is a primary reason why women choose not to start a business. When asked to explain why they have ‘never considered starting or owning their own business,’ women were significantly more likely to report low awareness of start-up capital than men. In the growth decision, perceived work/family demands were considered of equal importance to perceived ability to secure funding for their business.³⁹

These and other studies indicate that readiness to seek and deploy different types of financial capital is, in part, a function of owners’ growth intentions. In considering women business owners’ growth preferences, it is essential to control for the context of the business owner’s decisions. Relevant aspects of the context include family obligations, the strength of the owner’s preference for maintaining ownership and control, sector engagement, perceived access to financial and other resources, and the role of other constraints within the ecosystem. Failure to account for such factors can bias the conclusions such that it is difficult to differentiate between ‘preference’ and the influence of context.

Plans for growing the scale/scope of the business in the next three years



Promoting on social media, expanding business with existing clients, actively calling prospective clients.

Continuing to offer great customer service, a friendly environment which results in word of mouth advertising.

Take the business into the digital world to have a strong presence online.

More aggressive advertising.



Pursuit of new clients in addition to maintaining current portfolio of clients.

Hire more salespeople.

Online marketing, flyers, business cards, in-person marketing.

Through more advertising and network connections.

Q13. How, if at all, do you intend to grow the scale or scope of your business or enterprise in the next three years?
Please answer in your own words.

Financial knowledge

To assess the level of small business-related financial knowledge, survey participants were asked 20 questions pertaining to terms and topics associated with small business management and entrepreneurial finance. Each question refers to a particular aspect of small business financial management.⁵ The questions are listed in the table. To the right are listed the percentage of participants who correctly answered each statement, according to gender of business ownership. Overall, the average scores of financial knowledge among women small business owners were lower than that among men small business owners.

Previous studies indicate that financial knowledge is associated with individuals’ backgrounds, such as level of education, age, years of management experience, etc.⁴⁰ This research also found that financial knowledge was highest among older individuals, participants with more years of education, and among more experienced business owners. Yet, in spite of these factors, financial knowledge remained significantly higher among men small business owners than among counterpart women small business owners.⁶ Women small business owners were found to be 56% more likely than men small business owners to achieve a ‘below average’ score on small business financial knowledge.

Small business finance quiz by percentage of correct responses and gender

Small business finance terms and concepts (correct responses)	Men + Women	Men	Women
Collecting receivables in a timely manner can reduce the need for debt financing. (Agree)	94.1%	93.2%	95.0%
Establishing a working relationship with your bank can facilitate access to financing. (Agree)	92.6 %	92.4%	92.8%
Liquidity is the ability to quickly convert assets to cash. (Agree)	91.5%	90.4%	92.6%
Making a larger down payment during purchase helps lower the cost of a mortgage. (Agree)	92.0%	91.6%	92.4%
Credit scores are an element in adjudication of loan applications. (Agree)	90.3%	90.6%	90.0%
Using a credit card frequently can hurt your credit score. (Disagree)	80.9%	78.8%	83.0%
Cashflow projections are a key input in determining the value of a small business. (Agree)	81.5%	82.4%	80.6%
Maintaining a budget facilitates compliance with payroll remittance taxes. (Agree)	75.8%	74.0%	77.6%
Export credit insurance protects the domestic vendor of products and services against the risk of non-compliance by a foreign buyer. (Agree)	78.9%	81.0%	76.8%
An operating loan is typically used to finance working capital. (Agree)	78.1%	80.4%	75.8%
The terms 'retained earnings' and 'cash' are equivalent. (Disagree)	70.0%	70.8%	69.3%
Higher levels of competition are likely to reduce the firm's gross margin. (Agree)	71.4%	78.4%	64.3%
The cost of borrowing using a credit card is greater than the cost of borrowing using a payday loan. (Disagree)	63.6%	64.4%	63.7%
An angel is an investor who uses institutional funds to finance small businesses. (Disagree)	55.0%	56.8%	53.3%
If interest rates rise, bond prices typically rise. (Disagree)	42.9%	45.6%	40.3%
An advantage of venture capital financing is retaining ownership control. (Disagree)	40.8%	44.4%	37.3%
A line of credit is a suitable way to finance fixed assets. (Disagree)	33.4%	35.0%	31.9%
Equity financing is less expensive than debt financing. (Disagree)	28.3%	28.2%	28.5%
Working capital is the difference between liabilities and assets. (Disagree)	29.5%	36.4%	22.6%
A balance sheet shows whether a company was profitable in a given period. (Disagree)	24.6%	30.0%	19.2%

⁵ Methodology: overall financial knowledge was scored as the simple sum of the number of correct answers, out of the 20 questions that comprises the financial knowledge quiz. To ensure that this approach was appropriate, polychoric factor analysis was employed to determine the number and nature of the potential clusters of inter-correlations among the 20 questions, finding that the questions loaded on a single underlying factor. That is, the 20 questions related to a single underlying concept: financial knowledge as it relates to small firms. Therefore, a scale was created as the sum of correct answers, for which the Cronbach alpha was 0.94 confirming homogeneity among the responses to the questions.

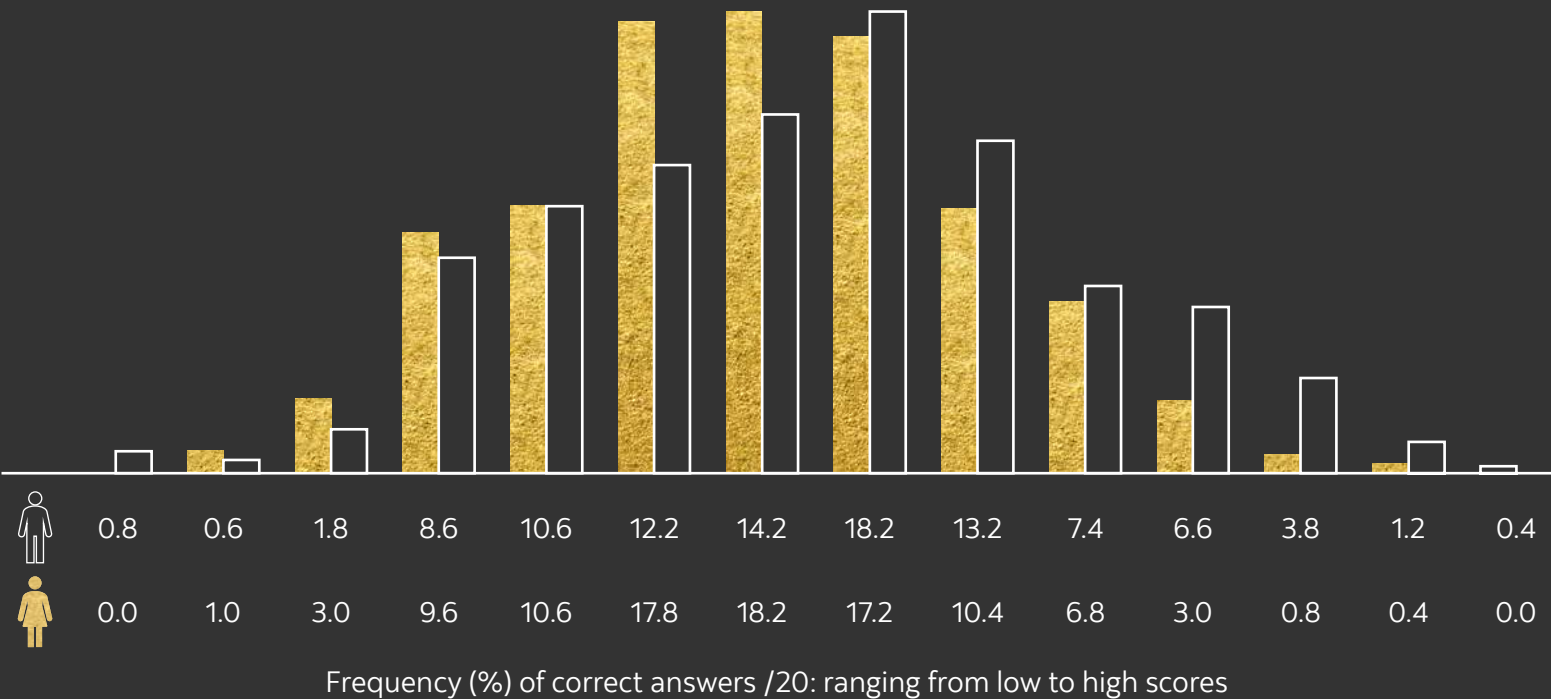
⁶ In order to simultaneously control for age, education, etc., multivariate regression models of financial knowledge scores as the dependent variable were estimated using negative binomial regression analyses with control variables corresponding to age, education etc. Adding the binary variable connoting the gender of the participant to the model significantly improved the model's goodness-of-fit and indicated that the difference in observed financial knowledge between men and women in the sample is significant: that is, the score among women participants is significantly lower than that among men participants, after allowing for age, sector, language and other potentially confounding factors. To test for robustness, a binary logistic model of whether participants’ scores were in the top half or the bottom half of the distribution was also estimated, with qualitatively similar results.



This chart presents a visual representation of the distribution of financial knowledge scores, (out of 20 questions) among the survey participants, by gender. Relative to men, women are under-represented among those who score highest on the financial knowledge quiz (right side of the chart) and

over-represented among business owners who score in the lower half of the response distribution (left side of the chart). Collectively, these findings indicate an opportunity to strengthen financial knowledge among women business owners in Canada.

Relative frequency distribution of correct answers to the financial knowledge quiz by gender



Q19. Please read the list of statements below and indicate whether you agree or disagree with each.

Business owners’ financial knowledge needs

Given that, on average, financial knowledge among women small business owners is lower than that of men small business owners, it follows that it is important to understand the types of finance knowledge that women business owners need most. To support education about small business finance, this section draws on a series of questions that identify those aspects of finance which, according to women business owners, are (a) most important to them and (b) for which they perceive additional knowledge is most needed.

Survey participants were asked to rate: (a) the importance of each of 17 small business finance domains and (b) to self-assess their own level of knowledge for each of the 17 concepts. The two ratings were combined to create a ranking of domains deemed both important and in need of improvement. The following table presents this ranking of finance topics in descending order of priority. Women small business owner survey participants seek to better understand valuing a small business, cash flow forecasting, financial risk management, sources of capital, and working capital. Of secondary needs were financial ratios, liquidity, fixed asset financing, export financing, ways to improve access to credit, debt financing and payroll taxes.

Ranking of women business owners’ financial knowledge needs

Small business terms and concepts	Importance	Need	Importance & Need
Valuing a small business	3.86	3.36	12.98
Cash flow forecasting	3.94	3.09	12.17
Financial risk management	3.55	3.30	11.71
Sources of small business financing	3.42	3.40	11.61
Working capital financing	3.11	3.71	11.54
Financial ratios	3.01	3.81	11.45
Liquidity	3.39	3.34	11.33
Fixed asset financing	2.80	3.80	10.66
Equity financing	2.75	3.88	10.66
Export financing	2.23	4.76	10.63
Ways to improve access to credit	3.26	3.23	10.53
Debt financing	2.99	3.51	10.49
Payroll taxes	3.22	3.24	10.44
Angel investors and syndicates	2.25	4.58	10.31
Financial statements	4.44	2.24	9.95

Top financial knowledge needs

1

Business valuation

Valuation helps business owners and investors understand the financial worth of the firm and the key factors that determine its value. Other reasons why business valuation tops the list of women business owners’ knowledge needs include: the need to value the business to estimate personal wealth; to inform issues associated with succession, estate planning, tax compliance, and legal proceedings; assign shares of partners; and help assess mergers, acquisitions or exits.

▶ [LEARN MORE ABOUT BUSINESS VALUATION](#)

2

Cash flow forecasting

Cash flow projection is an ongoing management task that allows owners to monitor cash and avoid unexpected shortfalls. A cash flow forecast predicts the amount of cash coming into, and going out of, the business each month (or week or year, etc.), along with the amount remaining at the end of a given forecast period. This tool indicates where the business is headed and when capital will be needed. Business owners can also plan solutions that will help address cash flow fluctuations.

▶ [LEARN MORE ABOUT CASHFLOW FORECASTING](#)

3

Risk management (budgeting)

Financial risk can be informed, especially during times of financial uncertainty, by means of a simple control mechanism that reduces risks: that is, by budgeting. Budgeting is the basis for financial management of a business. This study's findings confirm what other studies have previously documented: that many small business owners do not budget.^{41,42} Having a business budget is associated with financial confidence: the higher the level of financial confidence, the higher the likelihood of budgeting. Women small business owners (60.9%) were marginally less likely to maintain a business budget than men counterparts (63.8%). Interestingly, among this same group of participants, there were only small gender differences regarding having a household budget. Explanations of the usage of business and household budgets may reflect commercial financial management experience⁴³ or socialization processes associated with financial matters.⁴⁴ It may be that some business owners perceive that the time and effort required to maintain a business budget detracts from other core aspects of their business or from domestic responsibilities.

Given that most small business owners must manage effectively their personal and family finances, as well as the finances and transactions associated with their enterprises, an understanding about how and why to budget should be prioritized as learning outcomes for Canadian entrepreneurship education and training programs.

► LEARN MORE ABOUT BUDGETING FOR SUCCESS



4

Sources of capital

In their efforts to secure financing, women business owners have expressed frustration with respect to access to capital. Debate remains about the extent to which gender influences access to loans and the terms of lending.⁴⁵ Some perceive that lenders are gender-biased with respect to their lending practices. Others attribute differences in firm and owner attributes, rather than gender of business ownership. Large-scale and representative studies of Canadian lending practice report that once systemic differences in owner and firm characteristics are accounted for, there are no significant remaining gender differences in access to loans from commercial lenders.⁴⁶

Misinformation about gender bias in lending and investment may negatively influence the confidence of prospective borrowers and increase the likelihood of borrower discouragement, especially among women. Such misperceptions may also motivate women to seek capital from other sources: family and friends, women-focused capital funds, and informal suppliers, such as crowdfunding platforms or payday loans. To further inform business practice and financing solutions, the survey inquired about participants' recent borrowing experiences. Several findings stand out:

- First, among the survey participants who applied for a small business loan, the majority of loan applications (88%) are approved. This finding is consistent with findings reported by Statistics Canada (2018) to the effect that Canadian financial institutions approve 86.6% of loans requested by SMEs.⁴⁷
- Second, 91% of the loan applications from the women-owned small businesses were approved—greater than the 86% approval rate among men-owned small businesses. This finding is again consistent with Statistics Canada findings. Statistics Canada (2018) reports that ten percent of loan applications from firms owned by men were rejected while seven percent of loan requests from women-owned firms were rejected.
- Third, women small business owners are relatively less likely to apply for loans. Among small business owned by men, 11.6% had applied for a loan in the previous 12 months; whereas 6.9% of women-owned small business had done so. Among that subset of business owners surveyed who indicated a need for financing, 47% of men small business owners had applied for a loan in the previous 12 months compared to 34% of women small business owners. This is an intriguing finding given the finding that women and men small business owners are equally likely to seek to grow the scale and scope of their businesses, for which financing is usually required.

► LEARN MORE ABOUT SOURCES OF CAPITAL

5

Working capital and trade credit

Women small business owners identify working capital, which is also known as trade credit, to be among the financial knowledge needs deemed as most important to growth, yet among the least understood. Yet, the success and failure of many businesses derives from how well the business owners manage the cash flow cycle.⁷ The needs for additional cash arising from the gap between purchases of inputs and the proceeds of sale from outputs is typically financed by a combination of bank borrowing and trade credit.

Firms with a good credit rating are often eligible for operating loans (lines of credit) that are typically available from banks and other commercial lenders. Terms are negotiated, with the amount of available capital often being linked to the firm's working capital (accounts receivable and inventory). According to Statistics Canada (2018) neither the request rate for operating loans nor the approval rate differed between firms owned by men and firms owned by women.⁴⁸

In addition, suppliers often allow firms to pay for goods and services supplied subsequent to delivery, known as trade credit. Typically, terms of payment are based on a 'net basis' (e.g., net 30 which implies payment is due in 30 days) or with a discount for early payment (e.g., 2/10 net 30).⁸ Trade credit can provide 'free' financing if the terms of purchase are on a 'net basis' (e.g., terms of 'net 30' provides the equivalent of 30 days of free financing). According to Statistics Canada (2018)⁴⁹ women business owners are considerably less likely than men business owners to seek trade credit. Moreover, the average amount of trade credit financing sought by women-owned businesses was approximately \$29,800; the average amount of trade credit sought by men-owned SMEs was \$65,100.

In general, operating loans obtained from banks or other commercial lenders are the least costly means of financing the cash flow cycle. However, to qualify for bank financing firms need to be in good credit standing. Trade credit can be an expensive form of financing. Bank borrowing and trade credit financing are somewhat inter-related. Use of trade credit with a record of consistently paying the bills on time is one means of establishing the good credit record that helps with bank borrowing. Likewise, a good record of repayment of bank loans facilitates good terms of lending from suppliers who become comforted that your firm will be around to pay its bills.⁵⁰



⁷ Cash flow cycle: as firms grow, cash expenditures also grow in order to acquire the raw materials or labour required to produce the additional goods, or to supply the additional services. Eventually, the firm sells its goods/services and receives the cash. However, there remains a period of time following the up-front cash expenditure and the subsequent cash income. Financing is often required to bridge this period and careful management of this cash flow cycle is also necessary.

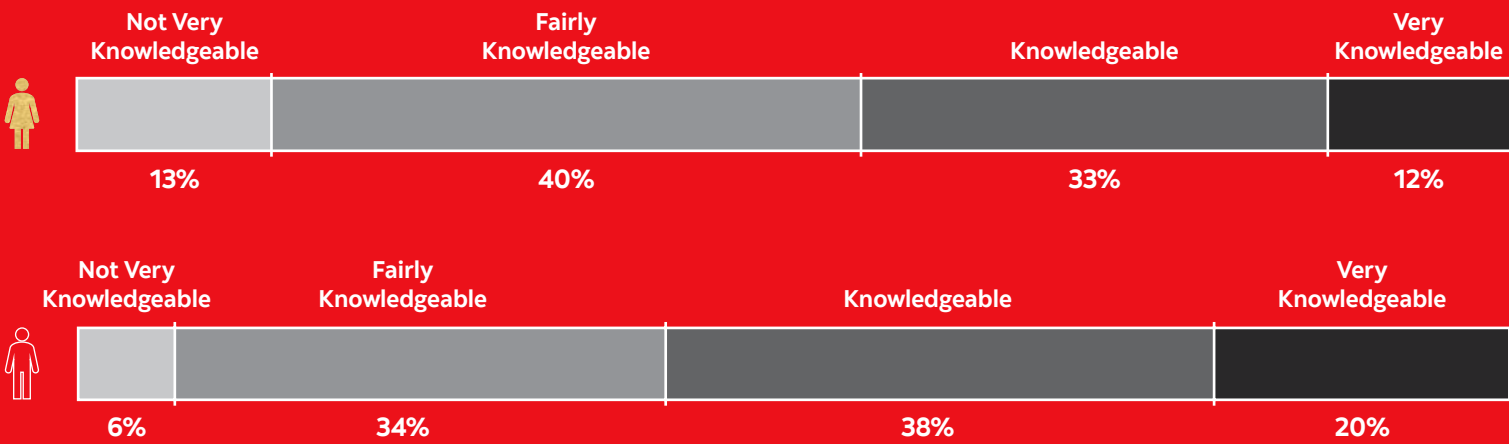
⁸ 2/10 net 30 means that if the firm pays the supplier within 10 days, a discount of two percent will be applied. This offer encourages early payment: if the firm does not pay within ten days, the full price is due within 30 days allowing the purchaser firm to use the funds for an extra 20 days but at a cost of 2% of the total. This can be an expensive source of financing '2/10 net 30' implies an annualized rate of interest higher than that of most credit cards.

Financial confidence

Self-confidence is important to making good decisions. The individual’s self-confidence plays a pivotal role in decision making. Good decisions, including good financial decisions, require that the decision maker believes in himself or herself. To estimate their level of financial self-confidence, survey participants were asked to rate themselves with respect to their overall level of financial knowledge on a four-category scale: ‘Not very knowledgeable,’ ‘Fairly knowledgeable,’ ‘Knowledgeable,’ or ‘Very knowledgeable.’ The distribution of responses, by gender, is shown on the right. Women business owners rated their overall level of financial knowledge lower than men business owners did: 58% of men rated themselves as either ‘Knowledgeable’ or ‘Very knowledgeable.’ Only 45% of women rated themselves as either ‘Knowledgeable’ or ‘Very knowledgeable.’

The survey participants were also asked to self-assess their level of knowledge (on a 7-point scale) with respect to each of 17 different small business financial terms and concepts. The table reports the proportion of participants, for each of the 17 concepts, who self-assessed their level of knowledge as being high (5 or more on the 7-point scale). As illustrated, men small business owners are more confident than women small business owners on every one of the 17 financial concepts. Women small business owners (and men) are most confident about their knowledge regarding managing cash, financial statements and credit scores and least confident with respect to export financing, venture capital and business angels. The majority of women small business owners are not confident about their knowledge of the remaining 14 small business terms and concepts. Gender differences in self-assessed financial knowledge are greatest with respect to liquidity, financing of fixed assets, financial ratios, working capital financing and financial risk management.

Overall self-assessed level of financial confidence



Q16. How would you rate your overall level of financial knowledge?

Percentage of participants who rated their financial knowledge as high

Concept	Men	Women
Managing cash	70.8%	69.3%
Financial statements	66.0%	62.5%
Credit scores	60.0%	55.5%
Cash flow forecasting	49.6%	42.5%
Payroll taxes	46.6%	39.9%
Ways to improve access to credit	43.2%	37.3%
Liquidity	52.2%	37.3%
Sources of small business financing	39.6%	35.5%
Financial risk management	44.8%	35.5%
Valuing a small business	41.4%	32.9%
Debt financing	39.0%	31.5%
Working capital financing	39.0%	29.1%
Fixed asset financing	38.6%	26.9%
Financial ratios	38.0%	26.7%
Equity financing	36.0%	26.7%
Angel investors and syndicates	21.6%	15.6%
Export financing	19.2%	12.6%

Q17. On a scale from 1 to 7, where 1 means very low and 7 means very high, how would you assess your financial knowledge about the following business concepts? Percentage of men/women participants rating financial knowledge as ‘high’ (5, 6 or 7 on a seven-point scale).

Under-confidence and overconfidence

While confidence is essential to sound financial decision-making, it is possible to have too much confidence. Individuals are overconfident if their financial confidence level is higher than that which is warranted by their actual level of financial knowledge. Overconfident individuals place undue emphasis on their own knowledge, and are less likely to seek expertise from more knowledgeable parties. This overestimation of ability (overconfidence) is common and can have catastrophic financial consequences. Overconfident individuals, for example, are several times more likely than others to borrow from high-cost short-term sources of financing, sources such as payday loans.⁵¹ Overconfidence is associated with poor financial decision-making⁵² and poor financial decisions are implicated as an important antecedent of failure among Canadian SMEs.⁵³

Likewise, individuals can be under-confident if they lack confidence about their command of small business finance even when their underlying level of financial knowledge is high. Under-confident individuals are less likely to take financial risks, trust their own financial knowledge and are more likely to seek external advice.

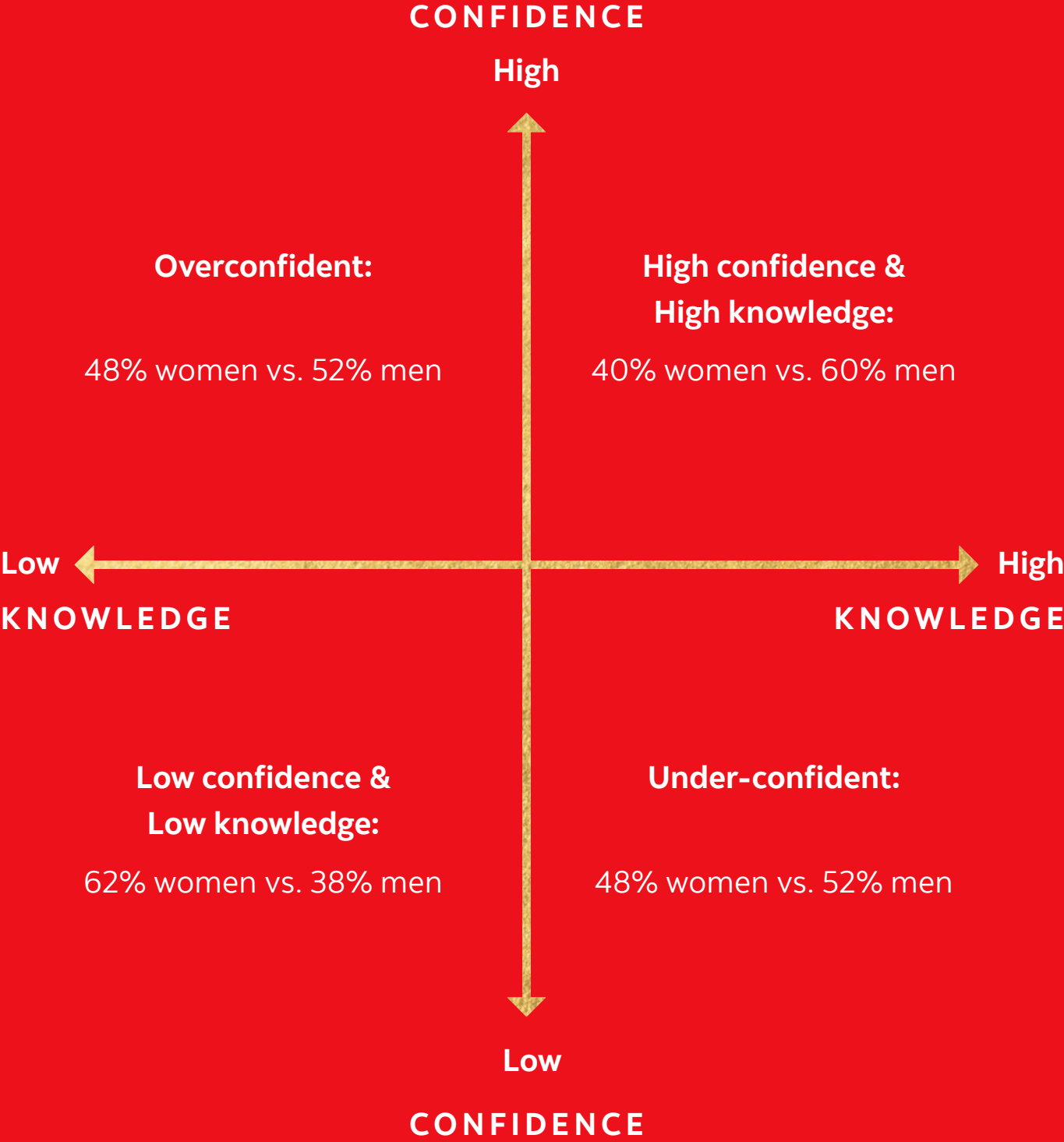
To identify overconfident and under-confident individuals, the research team juxtaposed objectively measured levels of financial knowledge (below average

vs. average and higher) and participants' self-assessed levels of financial confidence to create four groups of small business owners:

- **High confidence and high knowledge:** owners of small businesses who are financially confident and financially knowledgeable (high scores on financial knowledge quiz).
- **Under-confident:** owners of small businesses who lack confidence but are actually knowledgeable.
- **Low confidence and low knowledge:** owners of small businesses who have relatively low financial confidence as well as having low levels of financial knowledge.
- **Overconfident:** owners of small businesses who are confident but whose financial knowledge is relatively low.

Analyses of the four groups by gender reveals that women small business owners are significantly over-represented within the 'low confidence and low knowledge' category: that is, for whom financial confidence and knowledge are located at the low ends of the scales. Women small business owners comprise 62% of this group, while men small business owners comprise 38% of the group. Conversely, among the 'high confidence and high knowledge' group, men small business owners comprise 60%, of this group, while women small business owners constitute 40%. These findings present additional evidence about the need to strengthen financial knowledge and confidence among women small business owners.

Proportion of small business owners by financial confidence/ financial knowledge



Financial knowledge, financial confidence and decision-making

Financial knowledge and financial confidence are reflected in owners’ financial decisions. In some financial decisions, financial confidence trumps actual financial knowledge. Interestingly, owners of small businesses who maintain a business budget rate high on financial confidence regardless of their level of financial knowledge. Likewise, financial confidence differentiates owners of small businesses who, needing finance, do not apply for a loan for fear of rejection, from owners of small businesses needing finance who do apply for a loan (the former are referred to as ‘discouraged borrowers’). In other words, men and women who applied for a small business loan were significantly more confident of their financial knowledge compared to counterparts who needed financing but who did not apply. Financial knowledge among loan applicants was relatively lower than that of those who needed financing but who did not apply. This finding adds to our understanding of discouraged borrowers. The data show that those small business owners who apply for business loans have relatively high levels of financial confidence. This is an important insight because, in terms of absolute numbers, there are more discouraged borrowers than there are rejected loan applicants.⁵⁴ Among discouraged borrowers, lack of management skills has also been cited as an explanation of discouragement.⁵⁵ Overall, lack of confidence may be an important reason that small businesses do not raise the financing necessary for growth.

Reasons for thinking that the loan application would be rejected



I don’t have enough personal equity to secure a loan.

Women are generally turned down for loans. I have been turned down in the past, only to go over the local loan manager and then get approved.

I’m self-employed.



I am struggling with other debts and my credit report is terrible.

My debt to equity ratio is high.

Banks do not appear to want to lend money to small business. Do not have the time to waste.

Q29. Why did you not apply for a commercial loan in the last 12 months?

Financing preferences

To explore potential gender differences with respect to preferences for different sources capital, the survey asked growth-oriented participants to rate how likely they were (on a 1 to 7 scale) to seek each of 16 types of finance. The table summarizes growth-oriented participants’ responses to this question. It presents the percentage of participant owners who responded 4 or more (“likely” on the 7-point scale) for each of the 16 types of finance. The table distinguishes firms with more than 4 paid employees from smaller firms (fewer than 5 paid employees).

The majority of survey participants, regardless of firm size and gender, expect to re-invest the firm’s cash flows as the financing source of choice. Approximately half of the respondents expect to use personal savings as a means of financing growth. Owners of firms with more than four paid employees, compared to owners of smaller firms, were far more likely to use formal sources of financing (for example, personal and business bank loans) and trade credit. This was true across gender of participants; however, women small business owners, in comparison to men small business owner counterparts, were considerably less likely to mention bank loans—both personal and business—as sources of financing. This held true for use of trade credit. Striking is that, regardless of firm size, the likelihood of using almost all of the listed sources of financing was lower among women business owners than among men business owners.

The findings are consistent with Statistics Canada findings regarding gender differences in the likelihood of seeking external capital.⁵⁶ While there has been considerable media attention accorded to angel investors, venture capital and women-focused capital funds, it is bank financing that fuels Canadian small businesses.⁵⁷ Commercial loans are, by far, the leading source of financing among small businesses. In 2017, for example, Canadian commercial lenders approved more than \$56 billion in loans to SME employer firms and fewer than 1% of Canadian employer small businesses sought institutional venture capital.

► LEARN MORE ABOUT FINANCING YOUR ENTERPRISE

► LEARN MORE ABOUT WOMEN-FOCUSED CAPITAL FUNDS

Financing preferences among growth-oriented small business owners

Sources of financing	Larger firms (>4 employees)		Smaller firms (0 to 4 employees)		All firms	
	Men	Women	Men	Women	Men	Women
Reinvesting business cashflows	82.8%	79.1%	76.4%	65.9%	78.6%	69.1%
Personal savings	55.2%	50.7%	50.9%	46.8%	52.4%	47.8%
Customers (customers, prepayment)	54.0%	52.2%	35.2%	35.1%	41.7%	39.3%
Business line of credit	77.0%	56.7%	45.5%	32.7%	56.3%	38.6%
Credit cards	48.3%	40.3%	34.5%	35.6%	39.3%	36.8%
Personal line of credit	59.8%	46.3%	39.4%	32.7%	46.4%	36.0%
Government grant, loan	46.0%	35.8%	24.8%	26.8%	32.1%	29.0%
Business term loan	59.8%	46.3%	29.7%	22.9%	40.1%	28.7%
Family and friends	37.9%	37.3%	25.5%	22.0%	29.8%	25.7%
Suppliers (e.g., trade credit)	50.6%	38.8%	33.3%	17.1%	39.3%	22.4%
Tax credit	43.7%	38.8%	21.2%	15.1%	29.0%	21.0%
Personal term loan	47.1%	31.3%	26.1%	16.6%	33.3%	20.2%
Venture capital	44.8%	35.8%	17.6%	12.7%	27.0%	18.4%
Crowdfunding	33.3%	28.4%	9.7%	13.7%	17.9%	17.3%
Angel investor or angel syndicate	41.4%	23.9%	14.5%	11.7%	23.8%	14.7%
Initial public offering	31.0%	25.4%	7.9%	10.7%	15.9%	14.3%

Q15. On a scale from 1 to 7, where 1 means “very unlikely” and 7 means “very likely,” indicate the likelihood that you will seek each of the following sources of capital.

Advice about financing small business growth

Survey participants were asked, “What advice about financing small business growth would you share with another business owner?” Responses were coded, categorized and the content was analyzed for subthemes and potential gender influences based on the frequency of statements.

The most common categories of advice are: ‘manage expenses,’ ‘do your homework,’ ‘avoid or manage debt,’ ‘go slow,’ and ‘seek professional assistance.’ Within these categories, women business owners were disproportionately represented in the ‘do your homework’ category (55 statements: 65% by women, 45% by men), ‘grow slow’ (48 statements: 69% by women, 31% by men); and ‘seek professional assistance’ (36 statements: 64% by women, 36% by men). All three categories are cautionary in nature. Most statements expressed advice about how other business owners should approach start-up. Description of the advice shared and illustrative quotes follow.



1. Manage expenses

Small business owners' advice about managing expenses emphasized the need to budget, manage cash flow, keep fixed costs to a minimum, stay organized, live within your means, and defer expenditure if necessary to lower the demand on cash.

“

**CALCULATE WHAT YOU EXPECT THE COSTS WILL BE,
THEN DOUBLE THEM, AT A MINIMUM.**

**LOOK AT ALL THE COSTS AND RISKS. PLAN WELL
BEFORE EXPANSION. HAVE CONTINGENCY PLANS.**

**IT'S ALWAYS ABOUT 100 TIMES MORE EXPENSIVE
THAN YOU ORIGINALLY THINK AND BE PREPARED
TO LOSE MONEY.**

”

2. Do your homework

Dominant themes within this advice category include exploring options, listening, asking lots of questions, assessing clients carefully, undertaking market and financial analyses, and having a good understanding of agreement terms and conditions. One business owner suggests that time taken to conduct homework is a form of investment in the firm. Doing your homework can also avoid two challenges of planning: optimism bias—the tendency to overestimate the likelihood of positive events and underestimate that of negative ones; and confirmation bias—the tendency to disproportionately look for, interpret, and remember information that validates rather than rejects preferred outcomes, even when contrary evidence is presented.

“

**RESEARCH EXTENSIVELY. PLAN THOROUGHLY.
NETWORK EFFECTIVELY. INVEST IN RELATIONSHIPS
OF MUTUAL BENEFIT. GIVE TO GET...**

**DO ALL THE NECESSARY HOMEWORK ABOUT YOUR
TYPE OF BUSINESS AND HOW IT FITS THE REGION
YOU ARE TRYING TO PENETRATE, THEN LEARN ALL
ABOUT YOUR COMPETITION.**

**KNOW YOUR PRODUCT OR SERVICE. RESEARCH THE
MARKET AND ANTICIPATE NEW ENTRANTS.**

”

3. Grow slowly

Statements within this advice category reflect caution about the rate of business growth and associated financial risks. These participants advised other small business owners to avoid rushing into expansion without first establishing the business. They also cautioned others about the need for financial oversight, including reviewing operating budgets and cashflow projections in order to keep capital costs as low as possible; the need to “focus on the bottom line”; and a need to ensure that revenue growth does not come at a cost to profit. Interestingly, one-third of the statements by women business owners employed the phrase “start small.” No qualifying statements other than “start small” were made. Within this same advice category, but among statements advanced by men business owners that used the phrase “start small”, half were qualified using such phrases as go slow but...“dream big” or “expand with the market.”

“

DON'T TRY AND GROW TOO QUICKLY. SET UP YOUR FIRST YEAR'S OPERATING BUDGET AND CASH FLOW PROJECTIONS AND REVIEW MONTHLY. INVEST INTERNALLY AS MUCH AS POSSIBLE TO KEEP CAPITAL COSTS AS LOW AS POSSIBLE. DON'T HESITATE TO ASK YOUR BANK OR LENDING INSTITUTION.

DON'T BITE OFF MORE THAN YOU CAN CHEW. IN OTHER WORDS, PACE YOURSELF.

DON'T OVER EXTEND. BECOME SUCCESSFUL ON A SMALLER SCALE AND THEN EXPAND WITH FINANCING BASED ON YOUR TRACK RECORD.

BE REALISTIC ABOUT WHAT YOU CAN AFFORD AND WHAT YOU REALLY NEED TO KEEP YOUR BUSINESS GOING.

DON'T BORROW MONEY ON THE BASES OF OVERLY OPTIMISTIC PROJECTIONS. BE CONSERVATIVE ON YOUR PROJECTIONS.

”

4. Manage or avoid debt

Participants' statements encourage small business owners to employ bootstrap financing, leverage accounts receivable [that is, management of trade credit], and finance from internal resources, what one small business owner referred to as "business-generated capital." Others advised avoiding banks and not "overextending by going too far into debt." Managing debt was described as being particularly important during start-up.

“

**MANAGE BOTH CASH AND DEBT.
NEVER OVEREXTEND YOURSELF.**

**KEEP YOUR CREDIT SCORE IN EXCELLENT CONDITION.
LEVERAGE CUSTOMER DEPOSITS TO PREPAY ORDERS WITH
SUPPLIERS. KEEP YOUR TAXES PAID ON TIME TO AVOID
PENALTIES. MAKE SURE YOU UNDERSTAND FINANCIAL
STATEMENTS SO YOU ARE CLEAR WHEN SPEAKING WITH
YOUR LENDER ABOUT FINANCE.**

**AVOID BORROWING AT ALL COSTS. PAY BACK AS QUICKLY
AS POSSIBLE. IF YOU CAN'T PAY IT IN CASH, THEN AVOID
BORROWING AS MUCH AS POSSIBLE.**

”

5. Seek professional assistance

This theme captured statements that advise others to seek professional assistance, especially from accountants and financial advisors.

Participating business owners also recommend maximizing your accountants' expertise, for example, beyond tax remittances and investment planning. This is advice to which many small business owners don't adhere. For example, a recent Canadian study finds that fewer than half of small business owners sought professional advice in evaluating the financial performance of their firms in the preceding 24 months.⁵⁸ A second Canadian study finds that women are significantly less likely than men to have an investment advisor and to engage in long-term financial planning.⁵⁹

“

KEEP PERSONAL AND BUSINESS TRANSACTIONS SEPARATE (2 CREDIT CARDS). GET A BOOKKEEPER AND ACCOUNTANT. LEARN ABOUT TAX DEDUCTIONS AND GOVERNMENT INCENTIVES RELEVANT TO YOUR BUSINESS.

GET A GOOD ACCOUNTANT AND MAKE SURE YOU PAY ALL TAXES, GST ETC. I'VE SEEN BUSINESSES COLLAPSE DUE TO BANKRUPTCY OVER NOT PAYING TAXES THAT WERE DUE.

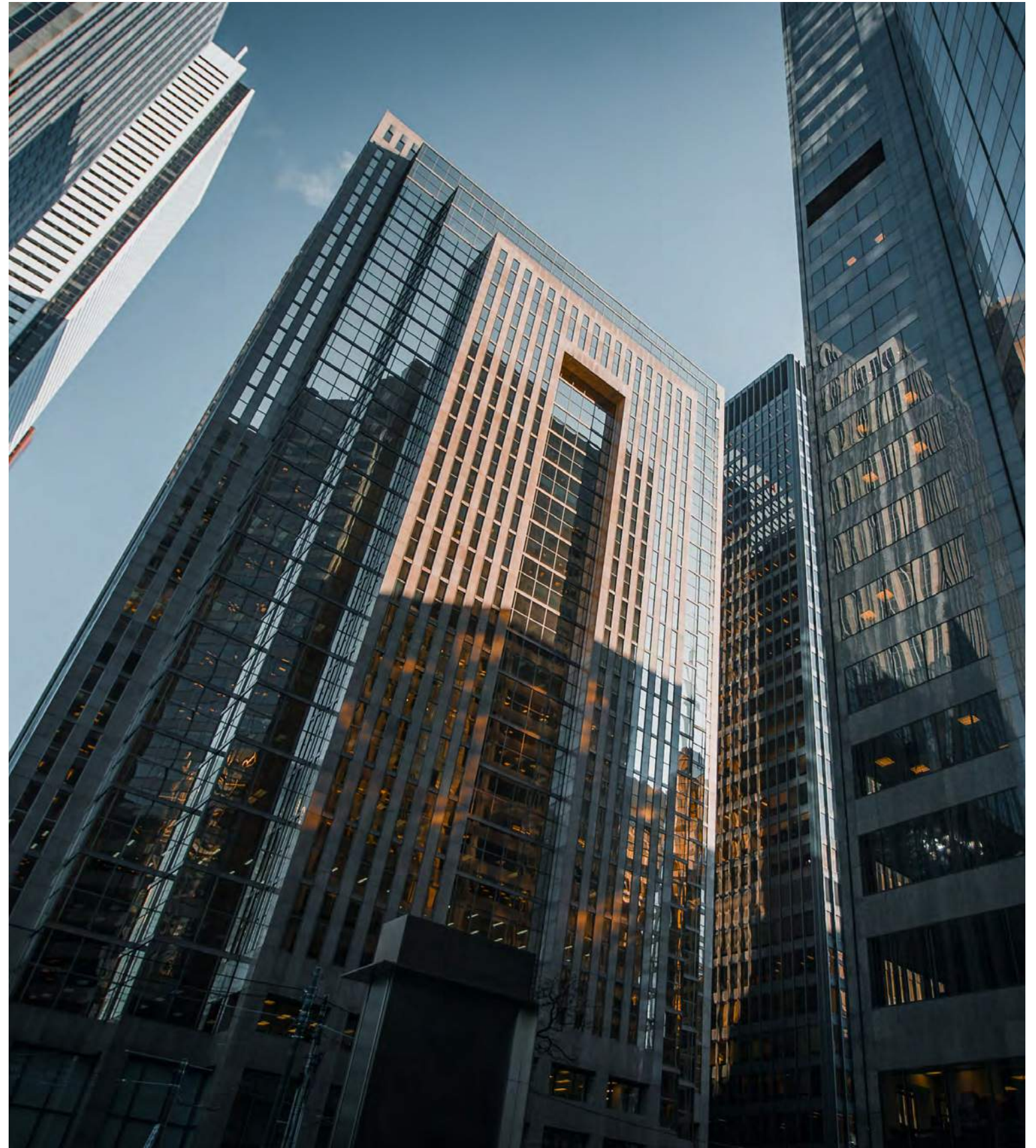
MAKE SURE YOU HAVE FINANCIAL PROJECTIONS AND GOOD FINANCIAL ADVICE FROM A TRUSTED ADVISOR.

”

Implications

To enhance the readiness of diverse small business owners in Canada to access and deploy financial capital, the study findings demonstrate the need for:

- Communication to small business owners about the association between small business financial knowledge, financial management and firm survival and growth.
- Education programs to alert small business owners about the importance of financial knowledge to firm survival and growth, in order to understand better the risks and potential consequences of limited small business financial acumen and experience.
- Entrepreneurship education and training should incorporate learning about the scope of financing options, misperceptions about financing options, and that financing is not simply transactional but involves the development of long-term relationships. This is to help ensure that small business owners are good stewards of the financial resources entrusted.
- Learning aids and diagnostics should incorporate objective measures of small business financial knowledge, such as those employed in this report. This includes benchmarks that enable users to compare their own level of financial knowledge and experience with other small business owners.
- The advice to grow slow and stay lean suggests the need for new business models and financial solutions that recognize founders' aspirations and reluctance of many to pursue rapid growth.
- Education targeted at instructors, lenders and investors should incorporate strategies to address potential unconscious biases in finance relationships and perceptual gaps between business owners and lenders/investors. The manner in which financial knowledge is imparted is important. Program delivery should focus on enhancing financial confidence.
- To inform financial decision-making, lenders and investors are encouraged to provide prospective clients with explanations about the assessment criteria employed, and rationales for application turnaround. Such discussions provide learning opportunities for investors, lenders and applicants.



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