

SMALL AND MICRO ENTERPRISE OWNERS' CHARACTERISTICS AND THEIR IMPACT ON CAPITAL STRUCTURE

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ABSTRACT

Small and Medium Enterprises (SMEs) use different sources of financing some of them emerging to be a challenge to the performance of the SME since most SME owners lack necessary knowledge on which sources of finance to enhance financial performance, one of the essential elements is financing. Businesses need finance for their expansion, production, innovation, growth and development. For SMEs to survive and grow, access to debt finance is critical. Owners' characteristic is an important determinant of finance options among SME. The aim of this study was to determine the SME owners' characteristics and their impact on capital structure adopted. The research analyzed the effect of SME owners' self efficacy on capital structure, SME owners' Overconfidence on capital structure and the effect SME owners' social network on capital structure. The study was informed by Human capital theory. Explanatory research design was adopted and the target was 295 SMEs which are registered as companies within Thika town in Kenya. Stratified random sampling technique was used to select a sample size of 170 SMEs. Secondary data was collected from financial records of SMEs and structured questionnaires were used to collect primary data. Descriptive statistics specifically mean and standard deviation, and inferential statistics such as Pearson correlation coefficient and multiple regression model were used in data analysis. The study findings provide insight on the best components of capital structure that SMEs can employ to improve their financial performance.

Keywords: Self Efficacy, Overconfidence, social network and Capital Structure.

INTRODUCTION

SMEs are of great socio-economic significance (Abor & Quartey, 2010). However, their long-term growth and competitiveness has been compromised by the chronic and often acute constraints on their access to formal-sector finance, among other systemic and institutional problems in developing countries. One of the primary causes of SME failure is non-availability of external finances (Beck, 2007). A large percentage of SME failure is attributed to inadequate capital structure or resource poverty and lack of managerial competency. SME capital structure typically follows pecking order behavior. However, the theoretical underpinnings of the pecking order theory are doubted in the case of SMEs as SME managers highly value financial freedom, independence, and control while the pecking order theory assumes firms desire financial wealth and suffer from severe adverse selection costs in accessing external finances (Lopez-Garcia & Sogorb-Mira, 2008).

Holmes and Kent (1991), by proposing a restricted version of pecking order theory to explain SMEs capital structure, argue that SMEs do not have easy access to equity; it is expensive and raising it implies a dilution of control of the firm. According to Damodaran (2001), capital structure decision is the mix of debt and equity that a company uses to finance its business. Capital structure decisions represent another important financial decision of a business organization apart from investment decisions. It is important since it involves a huge amount of money and has long- term implications on the firms. According to Gleason et al.

(2002), the utilization of different levels of debt and equity in the firm's capital structure is one such firm-specific strategy used by managers in the search for improved performance. Hence, most firms have strived to achieve an optimal capital structure in order to minimize the cost of capital or to maximize the firm value. Previous researchers have established that small-firm finance differs from large-firm finance and that optimal capital structure rules are often not applicable to SMEs (Uzzi & Gillespie, 1999; Van der Wijst, 1989; Welsh & White, 1981).

According to Hisrich (1989) an entrepreneur is the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial psychological and social risks and receiving the results rewarded of monetary and personal satisfaction. The characteristics of achievement motivated persons as identified by McClelland (1961). Successful entrepreneur must be a person with technical competence, initiative, good judgment, intelligence, leadership qualities, self – confidence, energy, attitude, creativeness, fairness, honesty, tactfulness and emotional stability. Owners characteristics are traits or attributes that are specific to the owner of the firm which can impact on the performance of the firm negatively or positively. Entrepreneurial characteristics include the managerial competency of the owner of the firm, networking and gender.

Successful entrepreneurs are leaders capable of installing vision and managing in the long term. Successful entrepreneurs have a well-developed capacity to exert influence without formal power and are adept at conflict resolution. Hisrich and Peters (2002) noted that business owner is the one who brings all kinds of resources into combinations that make their value greater than before. They argued that business owners must possess the characteristics needed for withstanding the challenges that come along during the entrepreneurial process. It makes an entrepreneur able to overcome incredible obstacles like choosing from a variety of sources of financing the business and also compensate enormously for other weaknesses. Almost without any exception, entrepreneurs live under extreme, constant pressure (when they start their business, for them to stay alive, and for them to grow). A new business requires top priority of entrepreneur's time, emotion, patience, and loyalty.

Martin and Staines (2008) found out that, lack of managerial experience, skills and personal qualities are found as the main reasons why SMEs fail. In South Africa, Herrington and Wood (2003) points out that lack of education and training has reduced management capability in SMEs and account for one of the reasons for their high failure rates.

Abor (2008) notes that the gender of the small business owner may affect the capital structure choice of the firm. Abor (2008) argues that women-owned businesses are less likely to use debt for a variety of reasons, including discrimination and greater risk aversion. Lack of business information and managerial competencies are also important reasons why finances are not available from commercial banks (Fatoki & Asah, 2011). Nevertheless, few studies have analyzed the owner characteristics in relation to its capital structure (Harrison & Mason, 2007), and in addition, most of this studies have been conducted in more developed economies and limited researches have been conducted in emerging economies. Therefore the study filled the existing literature gap by linking the owners characteristic (managerial competence, owners self efficacy, overconfidence, owners' independence and risk taking) with SMEs' capital structure.

Human Capital Theory

Human capital theory maintains that knowledge provides individuals with increases in their cognitive abilities, leading to more productive and efficient potential activity (Becker, 1964; Davidsson & Honig, 2003). In the entrepreneurial process, individuals should also have superior ability to successfully exploit opportunities. Following Colombo and Grilli (2005), individuals with greater human capital are likely to have better entrepreneurial judgment. Empirical studies looking at the effect of human capital (Cooper et al., 1994; Van Praag & Cramer 2001; Bosma et al. 2004) on performance do not constitute a novelty. However, little has been done to examine the real impact of human capital on non-economic performance.

On the other hand, empirical research has obtained a range of results regarding this relationship between human capital and performance, but those results are not consensual. Studies examining this relationship have not yielded consistently solid results. For example, Davidsson and Honig (2003) suggest that the association between human capital and entrepreneurial performance may be confounded by a number of factors, such as persistence and education. Bosma et al. (2004) concluded that human capital appears to influence entrepreneurial performance substantially.

Davidsson and Honig (2003) supported the theory that human capital determines entry into nascent entrepreneurship, but they found reduced evidence that the former carries out the start-up process towards successful completion. According to Bartlett and Ghoshal (2002), to develop human capital is one of the key objectives of organizational knowledge-sharing practices. Hsu (2007) studied the relationship between these practices and human capital and he concluded that as long as human capital is developed, human resources can improve their job performance and ultimately, entrepreneurial performance with new and relevant knowledge.

LITERATURE REVIEW

H₁: SME Owners' Self Efficacy has No Significant Effect on Capital Structure

Impact of Self-Efficacy

Luthans and Ibrayeva (2006) found that self-efficacy had a direct and mediating impact on performance of entrepreneurs in a transitional economy. Segal et al. (2002) define self-efficacy as people's judgments of their capabilities to organize and execute courses of action required to attain designated types of outcomes while (Baum et al., 2001) defines self-efficacy as the ability to master the necessary "cognitive, memory processing, and behavioural facilities" to deal effectively with the environment. Baron (2000, p.4) defines self-efficacy as a "belief in one's ability to muster and implement necessary resources, skills, and competencies to attain levels of achievement" whereas Krueger et al. (2000, p. 417) defines it as "the perceived ability to execute a target behaviour". In the former, self-efficacy is a confident belief regardless of actual skill, while in the latter self-efficacy involves cognitive and behavioral skill sets regardless of confidence.

Entrepreneurial self-efficacy (ESE) is the degree to which people perceive themselves as having the ability to successfully perform the various roles and tasks of entrepreneurship (Chen, Greene, & Crick, 1998). Self-efficacy, that is people's judgments of their capabilities to organize and execute courses of action required to attain designated types of performances

to the extent that their level of motivation, affective states and actions are based more on what they believe than on what is objectively true (Bandura, 1986, p. 391).

Arkman et al., (2002) found patent inventors actively involved in the formation of a new business to have higher levels of self-efficacy than patent inventors who had decided not to start a new business. Krueger et al. (2000) found self-efficacy to be a good predictor of start-up intentions. Markman et al. (2002) described self-efficacy as a key determinant of new venture growth and business success. Additionally, Shane et al. (2003, p. 267) cite Baum's (2001) research to highlight that self-efficacy was the "single best predictor in the entire array of variables" utilized to study entrepreneurial outcomes for a group of founders in the architectural woodworking industry. Self-efficacy as a multi-dimensional construct that consists of goal and control beliefs and is domain specific (business start-up vs. business growth in entrepreneurial process)

H₂: SME Owners' Overconfidence has No Significant Effect on Capital Structure
Impact of Owners' Overconfidence

Studies on overconfidence find great interest in the literature for responsive power to overconfidence bias to some financial market puzzles that cannot be explained by standard economic theory. There have been many analyses on the economic effects of overconfidence on financial markets and firms. Studies using different methodologies demonstrate that the factors like recent achievements and the positive past performance of the company, past experience, personality traits of individual lead to overconfidence (Hackbarth, 2009; Graham et al., 2008; Ben-David et al., 2007).

In Fairchild's (2009) theoretical model, the effects of managerial overconfidence on financing decisions are discussed under two topics; managerial shirking and free cash flow. In the first case, due to managerial shirking managers display low levels of effort in running the business. An overconfident manager overestimates his ability, and underestimates the financial distress costs. Therefore, there is a positive relationship between overconfidence and debt level. In the second model, managers have desire to use free cash flow to invest in a new project that may be value-reducing. Unlike the first case, overconfidence has an effect on lowering debt. Rational managers prefer borrowing for the knowledge that the new project is value-reducing, but overconfident managers perceive the new project as value increasing, and they decrease the debt level for the new project.

Fairchild (2009) establishes an interrelation between overconfidence and life-cycle debt in accordance with Damodaran (2001) approach. Debt level is low in companies at the early start-up and growth stages for having the flexibility to benefit potential new projects. The theoretical model states that an overconfident manager may choose lower debt than a rational manager. In the latter stage, an overconfident manager may choose higher debt than a rational manager for the reason of the disciplining role of debt becomes important.

Hackbarth (2009) analyzed theoretically the effects of optimism and overconfidence biases on management of investment and finance decisions. Hackbarth (2009) postulates that managerial biases may have a positive role due to the balancing effect. Due to employing more debt (leverage effect), biased managers will increase the level of underinvestment compared to rational managers. Conversely, compared to rational managers, biased managers invest -ceteris paribus earlier than rational managers (timing effect). Due to timing effect outweighing the leverage effect, cognitive biases benefits exceed their costs.

Management overconfidence is explained with better than average effect, self attribution bias and illusion of control. Ben-David et al. (2006) explain the overconfidence of CFO with miscalibration. They suggest that Chief Financial Officers (CFOs) make miscalibration in many business decisions including financial decisions. They conclude that firms with overconfident CFOs invest more, pay out fewer dividends, use debt more aggressively, engage in market timing, provide more managerial forecasts, and tilt executive compensation towards performance.

Korkmaz and Çevik (2007) analyzed the investors' behavior. The study concludes that overconfident investors tend to increase trading activity after getting market return and they are more active in the bull markets. But, there is not enough evidence for the idea of overconfident investors trading risky assets after getting market return. Overconfidence is associated with calibration and probability judgment in psychology. Overconfidence can be defined as miscalibration (Skala, 2008:34). In this sense, the difference between accuracy rate and probability assigned for decision making problem is classified as overconfidence. In financial sense overconfidence is defined as overestimation for the certainty or interpretation of one's own knowledge or private information (Skala, 2008).

H₃: SME Owners' Social Networks has No Significant Effect on Capital Structure

Impact of Owners' Social Networks

Social networks are defined by a set of actors (individuals or organizations) and a set of linkages between these actors. Social networks have been shown to be important for achieving entrepreneurship success (Brass, 1992).

Networks directly useful for business owners are business networks (related to other business agents in the market) and networks with government officials. Business networks are related to the supply chain and to competitors and thus, include relationships with suppliers, customers, competitors, business partners, and investors. The literature on entrepreneurial network development suggests that it is a function of venture lifecycles. Batjargal (2006) showed that social network development is based on initial network size and the revenue growth of previous years. It is necessary to emphasize the active nature (or internal factors) of network development in the entrepreneurship literature (Anderson & Jack, 2002; Batjargal, 2006). The active orientation of business owners should also play an important role in the development of networks (Baron and Markman 2000; Johannisson 2000; Frese and Fay, 2001). In other words, entrepreneurs, as interactive agents, create the conditions for the development and growth of their firms:

METHODOLOGY

This study adopted an explanatory research design since the study was of a cause-effect nature. This design is best for investigating the SME capital structure patterns and its effects on the SMEs financial performance. The population of the study comprised of registered SMEs in Thika town CBD in Kenya. According to Thika town Municipality records there were 3252 registered SMEs (Municipal records, 2013). Out of these SMEs, only 295 SMEs were registered as companies under the Companies Act (Cap 486). The study was only limited to these 295 SMEs within four sectors, namely; eating houses, workshops and carpentry, agriculture and mobile accessories. This is because the targeted SMEs kept proper books of accounts as required by law and the four sectors dominate Thika town CBD. From the target population of 295 SMEs, Taro Yamane (1973) sample size formula was applied to

select a sample size of 170 SMEs. The study allowed the error of sampling on 0.05. Thus, sample size was 170 SMEs. The study used stratified random sampling technique to select the SMEs where owners/managers were picked from. The research utilized both primary and secondary data. Questionnaires were used to obtain the primary data required for the study which were self-administered by the researcher in the field. This research employed a 5 point likert scale in rating the various responses. The respondents were required to read, understand and tick an appropriate choice.

Measurements

Dependent variable

According to Damodaran (2001), capital structure decision is the mix of debt and equity that a company uses to finance its business. The study used five point likert scale to evaluate if the SMEs have been financed through debts or retained earnings.

Independent variables

self-efficacy includes tendency to set challenging goals; persist towards the achievement of their goals even under difficult and stressful circumstances; and recover quickly from failure even in the face of adverse conditions (Bandura, 1997). Overconfidence is measured as overestimation for the certainty or interpretation of one's own knowledge or private information (Skala, 2007). Social networks refers to the ability of the owners to a set of actors (individuals or organizations) and a set of linkages between these actors (Brass, 1992)

Analysis

Since the data collected was quantitative in nature and seeks to determine the degree of association and cause-effect relationship between the variables, descriptive and inferential statistics were used in analysis, which are correlation and multiple regressions. Descriptive statistics were used to test for normality of the data collected. Measures of central tendency like mean and standard deviation were computed to see if it answers the research questions. Correlation analyses were used to test variable associations while Regression analysis was used to test the hypotheses about the relationship between the independent variables and dependent variable. Multiple regression model was employed to estimate the effect of multiple independent variables on a single dependent variable for purposes of prediction. To analyze the data, the following Regression model was used:

$$y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where:

Y = Capital structure

α = Alpha (constant)

$\beta_1 \dots \beta_3$ = the slope representing degree of change in independent variable by one unit variable

X_1 = Self efficacy

X_2 = Overconfidence

X_3 = Independence

ϵ is error term (represents all other factors which influence the dependent variable other than the independent variables in the study).

RESULTS

Table 1: Descriptive Statistics with Validity and Reliability Results

	Mean	Std. Deviation	loadings	Cronbach alpha
SME owner self-efficacy				
I believe am capable of succeeding in any business	4.99	0.11	0.99	0.733
I don't believe in becoming a failure	4.38	1.441	0.99	
I believe I can solve any challenges that face my business	4.99	0.11	0.959	
I believe any business I start it must succeed	4.99	0.11	0.99	
I can Transform my business to any type of business I want	4.97	0.172	0.99	
I am a Self-starter	4.99	0.11	0.534	
Leadership skills	4.8831	0.25924	0.99	
SME Owners over confidence				
Have been successful in completing new tasks	4.48	0.705	0.957	0.701
I have attained goals you set for yourself	4.72	0.451	0.975	
I am successful when confronting obstacles	4.79	0.407	0.966	
I take on a new venture even if outcome is uncertain	4.6	0.652	0.937	
I have high achievement needs	4.98	0.134	0.313	
SME owners overconfidence	4.7159	0.30616	0.959	
Owners' social network				
I have business friends who can support many time I have business problems	4.17	1.434	0.848	0.761
I have connections with successful peoples in the national and county government	3.96	1.45	0.955	
I have connections with major banks in Kenya	3.48	1.633	0.905	
I have easily interact with most influential suppliers	4.86	0.348	0.946	
I always invited by renowned business people in Kenya for business discussion	3.51	0.943	0.968	
Owner social network	3.9951	0.59278	0.97	

In relation to SME owner self- efficacy, SME owners affirmed that they believe they are capable of succeeding in any business (mean =4.99). Likewise, they believe they can solve any challenges that face their businesses (mean = 4.99) and that any business they start, it must succeed (mean = 4.99).Further, the findings showed that SME owners are self-starters (mean = 4.99) and that they can transform their business to any type of businesses they want (mean = 4.97).Additionally, SME owners are confident and don't believe in becoming failures (mean = 4.38). Findings regarding SME owner self-efficacy summed up to a mean of 4.8831 and standard deviation of 0.25924.The researcher found it necessary to establish the amount of optimism SME owners feel about the prospects of their business. Research findings revealed that SME owners have high achievement need (mean = 4.98).Similarly, they are successful in confronting obstacles (mean = 4.6).Further, they have attained set goals (mean = 4.72) and they are successful when confronting obstacles (mean = 4.79).Additionally, SME owners are capable of taking on a new venture even if the outcome is uncertain (mean = 4.6).Finally, SME owners affirmed that they have been successful in completing new tasks (mean = 4.48).Generally, findings on SME owners confidence summed up to a mean of 4.7159 and standard deviation of 0.30616. In relation to owners' social network, research findings reveal that they can easily interact with most influential suppliers (mean =4.86).Also, they have business friends who can support in times of crisis (mean =

4.17).Further, they have connections with successful people in the national and county government (mean = 3.96).Nonetheless, respondents were impartial on whether they are invited by renowned business people in Kenya for business discussion (mean = 3.51).Likewise, they were neutral on whether they have connections with major banks in Kenya (mean = 3.48). Findings on owners' social network summed up to a mean of 3.9951 and standard deviation of 0.59278.

Table 1 above shows the factor loading for each item as sorted by size. Any item that failed to meet the criteria of having a factor loading value greater than 0.5 and loads on one and only one factor is dropped from the study (TohTsu Wei *et al.*, 2008). Components matrix in factor analysis showed the components matrix before rotation. The matrix contained the loading of each variable on each factor. The study requested that all loading less than 0.5 be suppressed in the output. The study results showed that all values for all the factors were more than 0.5 reflecting the accepted value of factor loading.

Table 2: Correlation Statistics

	Capital structure	Self - efficacy	overconfidence	Social network
Capital structure	1			
Self-efficacy	.475**	1		
overconfidence	-.375**	-.263**	1	
Social network	.417**	.525**	-0.081	1

Pearson Correlation results in table 2 above showed that Self-efficacy was positively related with capital structure ($r = 0.475$) an indication that self-efficacy had 47.5% significant positive relationship with capital structure. However, overconfidence was negatively and significantly associated with capital structure as shown by $r = 0.375$ implying that overconfidence had 37.5% negative relationship with capital structure. Social network was positively correlated with capital structure ($r = 0.417$) to mean social network had 41.7% significant positive relationship with capital structure. The findings provided enough evidence to suggest that there was linear relationship between self-efficacy, overconfidence and social network with capital structure.

Table 3: Regression Results

	Unstandardized Coefficients	Standardized Coefficients	Collinearity Statistics				
	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
(Constant)	0.711	0.311		2.287	0.024		
Self-Efficacy	0.033	0.016	0.161	2.14	0.034	0.625	1.601
Overconfidence	-0.232	0.057	-0.276	-4.099	0.000	0.779	1.284
Social Network	0.105	0.022	0.367	4.866	0.000	0.621	1.61
R Square	0.443						
Adjusted R Square	0.425						

Durbin-Watson	2.444
F	25.127
Sig.	.000

a Dependent Variable: capital structure

Table 3 illustrates the model summary of multiple regression model, the results showed that all the three predictors (self-efficacy, overconfidence, and social network) explained 44.3 percent variation in capital structure. This showed that considering the three study independent variables, there is a probability of predicting capital structure by 44.3% (R squared =0.443). Study findings in ANOVA table further indicated that the above discussed coefficient of determination was significant as evidence by F ratio of 25.127 with a p-value 0.000 <0.05 (level of significance). Thus, the model was fit to predict capital structure using social network, overconfidence and self-efficacy.

Hypothesis 1 (H_{01}) stated that there is no significant relationship between self-efficacy and capital structure. Findings showed that self-efficacy had coefficients of estimate which was significant basing on $\beta_1 = 0.161$ (p-value = 0.034 which is less than $\alpha = 0.05$) which indicates that we reject the null hypothesis stating that there is no significant relationship between self-efficacy and capital structure and it implies that for each unit increase in self-efficacy, there is up to 0.161 unit increase in capital structure. As evidenced by Chen, et al, (1998), entrepreneurial self-efficacy is the degree to which people perceive themselves as having the ability to successfully accomplish the various roles and tasks of entrepreneurship. As argued by Markman et al, (2002), patent inventors were actively involved in the formation of new business ventures thus they can be said to have higher levels of self-efficacy as compared to patent inventors who had decided not to start a new business. Markman et al. (2002) described self-efficacy as a key determinant of new venture growth and personal success.

Hypothesis 2 (H_{02}) postulated that there is no significant relationship between overconfidence and capital structure. Findings showed that overconfidence had coefficients of estimate which were significant basing on $\beta_2 = -0.276$ (p-value = 0.000 which is less than $\alpha = 0.05$) implying that we reject the null hypothesis stating that there is no significant relationship between overconfidence and capital structure. This indicates that for each unit increase in overconfidence, there is up to 0.276 units decrease in capital structure. Contrary to study findings, Fairchild's (2009) theoretical model found out that there is a positive relationship between overconfidence and debt level. In Fairchild's second model, it was discovered that managers have desire to use free cash flow to invest a new project that may be value-reducing hence overconfidence has an effect on lowering debt. It is therefore evident that an overconfident manager may choose lower debt than a rational manager. According to Hackbarth (2009), both optimism and overconfidence have a positive role due to the balancing effect. For instance, biased managers will increase the level of underinvestment compared to rational managers in order to employ more debt. Further, overconfidence can cause entrepreneurs to assume unnecessary risks that threaten the survival of their firms (Lovallo & Kahneman, 2003; Hackbarth, 2008).

Hypothesis 3 (H_{03}) stated that there is no significant relationship between social network and capital structure. Findings showed that social network had coefficients of estimates which were significant basing on $\beta_3 = 0.367$ (p-value = 0.000 which is less than $\alpha = 0.05$) which implies that we reject the null hypothesis that states that there is no significant relationship between social network and capital structure. This implies that there is up to 0.367 unit increase in capital structure for each unit increase in social network. Cognate to study

findings, social networks have been shown to be important for achieving entrepreneurship success (Hoang and Antoncic 2003). Specifically, business networks are directly useful for business owners. Business networks include relationships with suppliers, customers, competitors, business partners and investors. According to Batjargal (2006), social network development is based on initial network size and the revenue growth of previous years.

The rule of thumb was applied in the interpretation of the variance inflation factor. From table 3, the VIF for all the estimated parameters was found to be less than 4 which indicate the absence of multi-Collinearity among the independent factors. This implies that the variation contributed by each of the independent factors was significant independently and all the factors should be included in the prediction model.

DISCUSSION AND CONCLUSIONS

Managerial Implications

Based on the findings, SME owners' self-efficacy has a significant effect on capital structure. Self-efficacy allows SME owners' to organize and execute courses of action required to attain designated types of outcomes. Further, it enables them to master and implement necessary resources, skills, and competencies to attain levels of achievement. This study also examined the impact of SME owners' overconfidence on capital structure. Study findings revealed that psychologists have determined that overconfidence causes people to overestimate their knowledge, underestimate their risks and exaggerate their ability to control events. On top of that, optimism/pessimism in SME owners' affects financial decision-makers' mood and can impact positively on performance.

The results of this study have delivered some insights on SME owners' social networks and capital structure. A business venture is either an entire network that consists of departments-actors, or an actor of bigger business network that is directly useful for business owners. Social networks have been shown to be important for achieving entrepreneurship success, particularly relationships with suppliers, customers, competitors, business partners and investors are important for the success of a business. The study also found a strong support for the argument that SME owner' self-efficacy impacts positively on the capital structure. Thus, SME owners' should have the belief that they are capable of succeeding in any business. They should also be self-starters and flexible to adapt to any changes in the market conditions.

The study also revealed that SME owners' overconfidence has a significant effect on capital structure. There is need for SME owners to avoid being overconfident since it can cause entrepreneurs to assume unnecessary risks that threaten the survival of their firms. However, there is need for SME owners' to be confident of confronting obstacles especially in times of crisis and when venturing in business activities whose outcomes are uncertain.

Implications for Future Research

The main objective of this research was to determine SME owners' characteristics and their impact on capital structure. The findings were only limited to SME owners' characteristics and thus, more research and studies should be carried out to determine other factors that affect capital structure other than the ones mentioned. Some of the factors can be those in debt management. This would enable the researchers and concerned parties to mitigate effects of such factors and hence enhance SME performance. Furthermore, conducting a replication study in another a different study area is also suggested.

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