

Effect of Women Entrepreneur Characteristics on Small and Medium Enterprise Financing Options

Koech, Rebecca Chepkemboi

School of Business and Management Sciences,
Department of Business Management University of Eldoret
csl.beckie@gmail.com

Abstract

Small and Medium Enterprises (SMEs) use different sources of financing; some of them emerge to be a challenge to the performance of the SME. Most SME owners lack the necessary knowledge on which the sources of finance. Businesses need finances for their expansion, production, innovation, growth and development. For SMEs to survive and grow, access to debt finance is critical. Owners' characteristics are an important determinant of finance option among SMEs. The aim of this paper was to determine the effect of women entrepreneurial characteristics on the SME financing options and its effect on SME performance. The study was informed by Human Capital Theory and Leader Motive Profile Theory. Explanatory design was adopted. The study targeted 295 SMEs registered as companies within Nairobi CBD. A systematic sampling technique was used to select 170 respondents. Secondary data was collected from financial records of SMEs and structured questionnaires were used to collect primary data. Descriptive statistics such as mean and standard deviation and inferential statistics such as Pearson correlation and multiple regression model were used in analyzing data. The study findings indicated that women entrepreneurs' managerial competence and self efficacy have a positive effect on SME financing option. However, women entrepreneurs' overconfidence has a negative effect on SME financing option. Thus, entrepreneur characteristics are important determinants of financing SMEs. It is therefore paramount to train them in managerial competencies and how they should possess self efficacy traits. Moreover, women entrepreneurs need to be sensitized on the negative effect of being overconfident when choosing options for financing their business.

Keywords: Women Entrepreneurs, Managerial Competence, Self Efficacy, Overconfidence, Financing Option

Introduction

According to Abor and Quartey (2010), SMEs are of great socio-economic significance. 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 finance (Beck, 2007). A large percentage of SME failure is attributed to inadequate capital structure or resource poverty and lack of managerial competency.

According to Demircug-Kunt, Maksimovic, Beck and Laeven (2006), the two primary sources of external finance for SMEs are equity and debt. External equity in the form of venture capital or the stock exchange is usually not available for SMEs (Shane, 2008). Research by Berry *et al.* (2002), documents the reliance of SMEs on bank debt as a source of financing. However, access to bank debt is, paradoxically, a frequently cited challenge for SMEs. Sorooshian, Norzima, Yusuf and Rosnah (2010), point out that the factors that can impact on the capital structure and performance of SMEs include firm characteristics and SME owners characteristics. Owners' characteristics are those traits or attribute 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. They are self-starters, experienced, have intimate knowledge of the technology and the market place in which they will compete and sound general managerial skills (Grant, 1992). Successful entrepreneurs have a well-developed capacity to exert influence without formal power and are adept at conflict resolution.

Hisrich and Peters (2002) note that a business owner is one who brings all kinds of resources into combinations that make their value greater than before. They argued 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 variety 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.

Mohd (2005) argues that entrepreneurial characteristics can influence the type of firm that will be created as well as how it will be financed. Thus, it is important to understand these entrepreneurial characteristics. Several studies have listed the personality characteristics needed to develop entrepreneurship as to include among others; need for achievement and motivation, determination, leadership, risk taking among others. Blackman (2003) asserts that individual's characteristics are attributed to his achievements which also have direct effect on the entrepreneurial firm performance.

Many researchers have suggested that characteristics of entrepreneurs are relevant factors in determining the ability of the business to achieve significant levels of performance. Among the characteristics that are believed to have impacted performance are leadership, motivation, determination and communication skills (Hisrich & Peters, 2002; Shane, 2003).

Martin and Staines (2008) have 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. Smit and Smit (2007, p. 5) agree that there is critical shortage of skilled managers.

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. However, 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 women owner characteristics in relation to its capital structure (Harrison & Mason, 2007). In addition, most of these studies have been conducted in more developed economies and limited studies have been conducted in emerging economies. Therefore, the current paper fills the existing literature gap by linking the women entrepreneurs characteristic (managerial competence, owners self efficacy and overconfidence) with SME capital structure.

Literature Review

Concept of Small Enterprises Owners Characteristics

The concept of SME owners' characteristics (entrepreneurs' characteristics) comes after McClelland, the behaviourists who dominated the field of entrepreneurship for 20 years, until the early 1980s. Their goal was to define entrepreneurs and their characteristics. The behavioural sciences were expanding rapidly, and there was more consensus than in other disciplines regarding the most valid and reliable research methodologies. The movement was reflected in research on a number of subjects, including entrepreneurs (Julien, 1997).

Research on successful entrepreneurs (Filion, 1991a, 1991b) allows practicing and potential SME owners to identify the characteristics on which they must work if they are to succeed. In the last century, many writers have identified entrepreneurship with the function of uncertainty and risk bearing and others with the coordination of productive resources, the introduction of innovation and the provision of technical know-how (Hoselitz, as cited in Burnet, 2000). Altogether, the combination of personal characteristics with background factors or human capital makes some individual more likely entrepreneurial candidates than others (Tonge, 2002).

SME Entrepreneurs' Managerial Competence on Capital Structure

According to Hisrich and Drnovsek (2002), managerial competencies are measured by education, managerial experience, start-up experience and knowledge of the business which positively impact on the performance of SMEs). Competencies can be learned from the input (antecedent of competence), processes (task or behavior that lead to competence), or result (achieving a standard of competence in the field of function) (Shane, 2003).

Ahmad *et al.* (2010) have found that managerial competencies as a predictor for the success of the business of SMEs in Malaysia influence stronger to environmental conditions that are stable and dynamic. Man and Lau (2005) report that entrepreneurial competencies are influential for the success of the business. Entrepreneurial competencies are significant to business success (Man *et al.*, 2002). Ahmad *et al.* (2010) argue that entrepreneurial competencies as a predictor of business success of SMEs in Malaysia, even its influence is stronger for stable environmental conditions as well as dynamically.

The capabilities and characteristics of the personality of those who manage companies are universally regarded as one of the most powerful factors that have a positive or negative impact on performance (Zoyza & Herath, 2007). Ability to demonstrate the competence of the owner/manager of a

small business is where the competence of that will be affected by entrepreneurial characteristics of the respective owners/managers.

SME Owners' Self Efficacy on Capital Structure

Luthans and Ibrayeva (2006) have found that self-efficacy has 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. Byrant (2007) has explored the role of self-efficacy in the use of decision-making heuristics by entrepreneurs. Self-efficacy is a multi-dimensional construct that consists of goal and control beliefs and its domain is specific (business start-up vs. business growth in entrepreneurial process).

SME Owners' Overconfidence on Capital Structure

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 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) posits 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.

Malmendier *et al.* (2007) indicate that overconfident managers use high level of debt compared to rational managers. Management overconfidence is explained with better than average effect, self attribution bias and illusion of control. Oliver (2005) demonstrates that firms have a high level of confidence; debt levels were also high for US firms in the period between 1978 and 2004.

Materials and Methods

This study adopted an explanatory design because the research was based on a cause-effect relationship. This design is best for investigating the SME capital structure pattern and its effect on the SMEs financial performance. The population of the study comprised registered SMEs located in Nairobi Central Business District. According to Company registrar records (2013), there are 3252 registered SMEs. Out of these SMEs, only 295 SMEs are registered as companies under the Companies Act (Cap 486). The study targeted these 295 SMEs within four sectors, namely; hotels, workshops and carpentry, agriculture and mobile accessories. This is because the targeted SMEs keep proper books of accounts as required by law and the four sectors dominate Nairobi town CBD.

Measurement Variables

Dependent Variable

According to Damodaran (2001), financing option 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 Variable

Self-efficacy tend to set challenging goals; persist toward 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).

Managerial competencies are measured by education, managerial experience, start-up experience and knowledge of the business which positively impact on the performance of SMEs whereas attitudes, beliefs, knowledge, skills, abilities, personality and behaviour are directed towards achieving success (Hisrich & Drnovsek, 2002).

Overconfidence is measured as overestimation for the certainty or interpretation of one's own knowledge or private information (Skala, 2007). Descriptive statistics were used to test for normality of the data collected. Measures of central tendency like mean, standard deviation was computed to see if it answers the research questions. Inferential statistics were used to draw implications from the data with regard to the regression model. Correlation analysis was utilized to test the hypothesis of the study.

Multiple regressions was employed to estimate the effects of multiple independent variables on a single dependent variable for purposes of prediction (Blalock, 1979). To analyze the data, the following regression model was used:

The multiple regression model used in this study is given as:

α_1 = SME financing

α_0 = constant.

$\beta_1 \dots \beta_4$ = the slope which represents the degree in which firm performance changes as the independent variable change by one unit variables.

β_1 = Owners' managerial competence

β_2 = Owners' self efficacy

β_3 = Owners' Overconfidence,

ε = error term

Results

The findings in Table 1 indicate descriptive statistics of the capital structure (independent variable) and the three dependent variables, namely women entrepreneurs' managerial competence, Women entrepreneurs self efficacy and Women entrepreneurs' overconfidence. The results from the Table 1 showed that women entrepreneurs had little managerial competence (mean =3.6107). However, regarding self efficacy results findings showed that women entrepreneurs had self efficacy and overconfidence.

Table 1. Descriptive statistics

	Mean	Std. Deviation
Women entrepreneurs managerial competence	3.6107	0.74898
Women entrepreneurs self efficacy	4.1881	0.72115
Women entrepreneurs overconfidence	3.5023	0.66888
Capital structure	4.5028	0.46159

Correlation Results

Pearson Correlation results in Table 2 showed that women entrepreneurs managerial competence were most highly positively and significantly correlated to SME financing option ($r=0.232$, $p<0.05$). Thus women entrepreneur managerial competence had 23.2% positive relationship with SME financing option. Women entrepreneur self efficacy was the second component to be positively related with SME financing option ($r = 0.395$, $p<0.05$) an indication that women entrepreneur self efficacy had 39.5% significant positive relationship with SME financing option. Women entrepreneur overconfidence was negatively and significantly associated with SME financing option as shown by $r = -0.210$, $p<0.05$ implying that women entrepreneur overconfidence had a negative relationship with SME financing option.

Table 2. Correlation statistics

	Capital Structure	Women entrepreneurs managerial competence	Women entrepreneurs self efficacy	Women entrepreneurs overconfidence
Capital Structure	1			
	0			
Women entrepreneurs managerial competence	.232**	1		
	0.004	0		
Women entrepreneurs Self efficacy	.395**	.329**	1	
	0.000	0.000	0	
Women entrepreneurs overconfidence	-0.210**	.281**	0.038	1
	0.01	0.000	0.647	0

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Regression Results

The regression results in Table 3 show that the study multiple regression model had a coefficient of determination (R^2) of about 0.63. This means that women entrepreneur managerial competence, women entrepreneurs self-efficacy and women entrepreneurs overconfidence explain 63% variations of SME financing option. Durbin–Watson statistic is substantially less than 2; there is evidence of positive serial correlation. Although positive serial correlation does not affect the consistency of the estimated regression coefficients, it does affect the ability to conduct valid statistical tests, as such it is concluded that the significant statistics are valid.

Table 3 further reveals that the F-value of 79.782 with a p value of 0.00 significant at 5% indicate that the overall regression model is significant, hence, the joint contribution of the independent variables was significant in predicting SME financing option.

Table 3. Regression results

	Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics		
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	0.071	0.209		0.34	0.734		
Women entrepreneurs' managerial competence	0.445	0.06	0.447	7.363	0.000	0.415	2.412
Women entrepreneurs' Self efficacy	0.285	0.047	0.302	6.09	0.000	0.622	1.609
Women entrepreneurs' overconfidence	-0.108	0.038	0.126	2.838	0.005	0.778	1.286
R Square	0.63						
Adjusted R Square	0.621						
F	79.782						
Sig.	0.000						
Dependent Variable: SME financing option							

Discussion

Findings indicated that women entrepreneurs' managerial competence enhances financing option of SMEs. These findings are supported by Ahmad *et al.* (2010) that managerial competencies predict the financing option of business and the success of SMEs. The study findings also coincide with Man and Lau's (2005) findings that entrepreneurial competencies are influential in predicting the success of the business, an argument that was echoed by Ahmad *et al.* (2010).

Similarly, women entrepreneurs' self-efficacy improves the financing option of SMEs through its capital structure. These study findings are supported by Luthans and Ibrayeva's (2006) findings that self-efficacy had a direct and mediating impact on performance of entrepreneurs in a transitional economy. According to Byrant (2007), self-efficacy determines decision-making heuristics by entrepreneurs such as financing option.

Contrary to the above two entrepreneurial characteristics, women entrepreneurs' overconfidence negatively influence financing option of SMEs. These findings are similar to what Oliver (2005) demonstrates that leaders who have a high level of confidence; debt levels are also high in their business. Overconfidence has an effect on lowering debt. This is what Malmendier *et al.* (2007) says, that overconfident managers use high level of debt compared to rational managers.

Conclusion and Recommendations

Based on the study findings, women entrepreneurs lack enough managerial competence which influences their business financing option negatively. It is thus recommended that government, non-governmental organizations and other stakeholders involved in educating business owners should emphasize on providing adequate managerial training particularly on financing options and their implication in the business. Moreover, women entrepreneurs should shun overconfidence and seek consultations on future effect of a particular financing option on the performance of the business.

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