EFFECT OF OWNERS' CHARACTERISTICS ON CAPITAL STRUCTURE FOR SMALL AND MEDIUM ENTERPRISES IN ELDORET TOWN CENTRAL BUSINESS DISTRICT (CBD), KENYA.

BY

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DECLARATION

Declaration by the Candidate

This research thesis is my own original work and has not been submitted to any institution of learning for examination purposes. No part of this research may be reproduced in any form without prior permission of the author or Moi University.

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DEDICATION

This work is dedicated to God for good health, wisdom, knowledge and peace of mind that I enjoyed as I pursued this study, my family for their patience, encouragement and struggle to enable me to go through the master's program.

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ABSTRACT

Small and medium enterprises (SMEs) play an important role in the Kenyan economy. Access to financial resources seems to be a major constraint to the growth of SMEs in the country. Businesses need to finance for their expansion, production, innovation, growth and development. For SMEs to survive and grow access to debt finance is critical. Owner's characteristic is an important determinant of finance option among SMEs. The aim of the study was to determine the SMEs owner's characteristics and their effect on capital structure in Eldoret Town Central Business Unit. The characteristics analyzed in relation to capital structure include; managerial competence, self-efficacy, overconfidence, owner's social networks and owner's risk-taking capability. The study was informed by Leader Motive Profile Theory. Explanatory research design was adopted, the study targeted 295 SME's which are registered under Companies Act Cap 486 within Eldoret Town CBD. Stratified sampling technique was used to select a sample size of 170 managers/owners of the enterprises. Structured questionnaire was used to collect primary data. Both descriptive and inferential statistics were used to analyze data. Descriptive statistics namely, frequency distribution, percentages and measures of central tendencies were used to describe characteristics of the data while statistical significance of relationships among selected variables were determined using Pearson Correlation and Multiple Regression Model. The regression analysis results indicated that managerial competence ($\beta_1 = 0.192$, P value=0.007<0.05, self-efficacy ($\beta_2 = 0.161$, P value=0.034<0.05); social network ($\beta_4 = 0.367$, P value=0.000<0.05) and risk taking ($\beta_5 = 0.337$, P=0.000<0.05) had a positive impact on capital structure while overconfidence ($\beta_3 = -0.276$, P value= 0.000<0.05 had a negative impact on capital structure. Therefore, the study concludes that a combination of SMEs owners' characteristics including managerial competence, self-efficacy, social networks, and risk-taking are necessary for determining a good capital structure for an enterprise. Finally, the study recommends that; 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 in as far as sourcing capital for the enterprise is concerned.

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DEFINITION OF TERMS

Capital Structure: Is the way in which an organization finances its assets through a combination of equity, debt or hybrid securities; it is usually measured as total debt divided by total equity (Bosma, 2017).

Managerial Competencies; It refers to qualities possessed by an entrepreneur; it includes education, managerial experience, start-up experience and knowledge of the business which may affect the performance of SMEs. Competencies can be learned from the input, processes or results (Bowen, 2015).

Overconfidence: Is the overestimation related to certainty or rather interpretation of one's own knowledge or private information in regards to an activity undertaken in an enterprise (Skala, 2017).

Risk-Taking It involves an act where a person risks his or her resources in an investment with the hope of achieving a greater potential on the same (Bandura, 2015).

Self-Efficacy This is defined as people's judgments of their capabilities to organize and execute courses of action required to attain designated types of outcomes. Self-efficacy as the ability to master necessary cognitive, memory processing and behavioral facilities to be able to deal with the environment. (Hoselitz, 2019).

SMEs   Are businesses whose personnel number fall between 10 and 100 and have a turnover of Ksh. 500,000 and Ksh. 5 million (Government of Kenya 2012).

Social Networks   This is defined as the set of linkages among SMEs, social networks have shown to be vital for achieving entrepreneurship success

ABBREVIATIONS

ANOVA: Analysis of Variance

CBD: Central Business District

CEO: Chief Executive Officer

CFO: Chief Financial Officer

ESE: Entrepreneurial Self-efficacy

GDP: Gross Domestic Product

OECD: Organizational for Economic Co-operation and Development

SME's: Small and Medium Sized Enterprises

SMEs: Small and Medium Size Enterprises

VIF: Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents background of the study, statement of the problem, objectives, research hypothesis, significance and scope of the study.

1.1 Background of the Study

SMEs are of great socio-economic significance in both developed and developing countries. However, their long-term growth and competitiveness has been compromised by the chronic and often acute constraints on their access to finance, among other systematic and institutional problems in developing countries (Kerubo, 2016). One of the primary causes of SMEs failure is non-availability of finance. A large percentage of SMEs failure is attributed to inadequate capital structure or resource, poverty and lack of managerial competency (Owino, 2015).

According to Gichuki *et al.,* (2019) 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. Research by Berry *et al.,* (2016), 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. Owino (2015), noted that the factors that can impact on the capital structure and performance of SMEs includes SMEs 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. Risk-taking was pointed out as a trait that distinguishes entrepreneurs from non-entrepreneurs and managers. The extent of risk-taking strength of the owners may lead to some entrepreneurial

orientations. It is believed that entrepreneurs prefer to take moderate risk in circumstances where they have some degree of control in realizing profit (Owino, 2015). Entrepreneurs don't prefer circumstances that entail extreme risks.

In the United Kingdom (UK) and the United States of America (USA), management of finances in SMEs is often different from those found in large firms due to the dynamic nature of their cash flow cycle, general scarcity of working capital and their ability to avail funds through debt (Omwono, 2016). Some of the SMEs also lack financial management and accounting systems available in large firms as well as professional employees who may be vital in managing such systems. Ordinarily, the owners are required to perform these tasks with the support from an accountant.

In Asian Countries, management of financial practices have been indicated to be vital in enhancing transparency, accuracy, efficiency and accountability hence resulting in the achievement of objectives in a given organization (Shane, 2019). As a result of increasing the chances of performance among SMEs, this tends to have huge implications for the growth and socioeconomic wellbeing of a country (Asian-Pacific Economic Cooperation, 2017). Thus, understanding the predictors of performance in SMEs is critical. The creation of more performing SMEs could potentially create new jobs; enhance trade and consequently the Gross Domestic Product (GDP) of the country.

In Australia, Herrington and Wood (2016) 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. Further findings indicated that there is critical shortage of skilled managers and that unavailability of managerial experience, skills and personal qualities were the main explanations why SMEs were crumbling.

In the South African context, Berry (2016), noted 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. The study further listed the personality characteristics needed to develop entrepreneurship as follows; need for achievement and motivation, determination, leadership and risk-taking. In Ghana, Demirguc-Kunt (2015) notes that gender in small business owner might affect the choice of capital structure in a firm. Additionally, women owned businesses are less likely to use debt for a variety of reasons, including and greater risk avoidance.

The significance of SMEs in developing Kenya's economy has continued to grow since the sector was first brought to the limelight by the International Labor Organization (ILO) in 1972. The SMEs in Kenya play an important role in the economic development of the country and provide one of the most important reliable sources of employment creation, income generation, poverty reduction and development of industrial base. It is estimated that there are 7.5 million SMEs in Kenya, providing employment and income generation opportunities to low income sectors of the economy (Muhindi, 2019). The sector's contribution to the Gross Domestic Product (GDP) has also grown from 13.8 per cent in 2011 to about 40 per cent in 2018 and the sector continues to grow to date. According to Kenya Central Bureau of Statistics (2019) economic survey, show that the employment within the sector increased from 7.942 million persons in 2008 to 9.272 million persons in 2011, and to 10.5 million people in 2018 accounting for 82.5 per cent of total persons engaged in employment outside small scale agriculture and pastoralist activities.

Kerubo (2016), noted that a business owner is the one who avails resources in different combinations that enhances their value. She adds that the owners of businesses must study the characteristics necessary for withstanding challenges that may accompany them during the entrepreneurial process. This way, an entrepreneur will be able to overcome potential obstacles like selecting variety of suitable sources of finance for the business and also to be able to compensate incredibly for other weaknesses. Entrepreneurs usually live under extreme constant pressure when they are starting a business; a new business therefore requires top priority of entrepreneur's time, emotion, patience and loyalty.

Prior 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 (Kerubo, 2016).

Most of the previous studies have been conducted in developed countries than in emerging countries like Kenya, hence, this forms the basis of this study which seeks to link owner's characteristics (managerial competence, owner's self-efficacy, owner's overconfidence, owner's social network and owner's risk taking) and SME capital structure.

1.2 Statement of the Problem

The vital role of SMEs as an engine for development could be underestimated, if the important elements of their outcome such as capital structure are not adequately catered for by both public and private sectors of the economy. Proper management of capital structure in SMEs is necessary for expansion, innovation, production, growth

and development (Abor, 2020). For SMEs to thrive and expand, access to debt is important. Owner's characteristics are important determinant of finance option among SMEs. Thus, SMEs owners must be made aware of the needs and concerns of particular types of investors. Training and communication on the requirements of banks and trade credit can help SME owners get investment ready and thus improve access to debt.

Poor management of capital structure is the main problem among the SMEs located in Eldoret Central Business District (CBD). SMEs owners lack the right combination of characteristics/qualities that could spear head their business forward in terms of streamlining management of their capital structure. This has therefore led to mismanagement of capital structure in the SMEs characterized by inadequate funds and subsequent downfall (Bosma, 2019).

Following the problem of management of capital structure for SMEs in Uasin Gishu County, a number of micro finance institutions have availed loans to the SMEs to enable them access capital with certain percentage interests rate during repayment period, despite this, most SMEs owners still lack appropriate characteristics such as managerial competency, social networks and risk-taking capability to access and utilize the funds appropriately. Some of these SMEs owners take the loans but due to incompetency, they end up misappropriating the funds hence leading to downfall of their enterprises thus, there is a gap. This study therefore, seeks to bridge this gap by examining the effect of owner's characteristics (owner's managerial competence, owner's self-efficacy, owner's overconfidence, owner's social network and risk-taking capability) on SMEs capital structure.

1.3 Research Objectives

1.3.1 General Objective

The aim of the study was to determine the effect of owners' characteristics on capital structure.

1.3.2 Specific Objectives

1. To determine effect of owners' managerial competence on capital structure

2. To assess effect of owner's self-efficacy on capital structure

3. To investigate effect of owners' overconfidence on capital structure

4. To ascertain effect of owners' social networks on capital structure

5. To determine owners risk-taking on capital structure

1.3.3 Research Hypotheses

$H_{o1:}$ Owners' managerial competence has no significant effect on capital structure

$H_{o2:}$ Owner's self-efficacy has no significant effect on capital structure

$H_{o3:}$ Owner's overconfidence has no significant effect on capital structure

$H_{o4:}$ Owner's social networks have no significant effect on capital structure

$H_{o5:}$ Owner's risk-taking has no significant effect on capital structure

1.4 Significance of the Study

The study sought to identify the skills and characteristics needed by SMEs owners for successful ways of financing the business. The significance of the study to the SMEs owners was to identify the characteristics necessary to succeed in this field. The study will assist the ministry of trade and entrepreneurship in Uasin Gishu county government and foreign and local investors, and other policy makers on formulating robust policies and strategies to enhance capital structure of SMEs, hence mitigate underperformance in SMEs. The results of this research will avail necessary

information that will benefit other future scholars who would wish to conduct related studies as it provides vital insights of what has not been examined.

Furthermore, necessary information will be availed to owners of the SMEs on the problems that generally face them and on how best they can solve the problems. Prospective entrepreneurs will also benefit from the study since they will access necessary information on how owners' characteristics can be enhanced in relation to access of adequate capital structure.

1.5 Scope of the Study

This study focused on the SME owner's characteristics influence on the capital structure of registered small and medium enterprises (SMEs) located within Eldoret Town CBD. Thus, the geographical scope of the study only involved registered SMEs located within the area. Hence the study was confined within the following sectors, Agriculture, Micro Finance Enterprise, Hospitality, Education Institutions, Spares Shops, Security Services, Electrical Supplies, Mobile Accessories, Computer Accessories, General Shops, Book Shop and Workshop and Carpentry. Data from the SMEs were collected from owners and managers of SME. The study was conducted between September and December, 2020.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents relevant literature related to the study; it also compares the views of different authors on the same. It encompasses the concept of capital structure, SMEs owner's characteristics, and review of empirical perspective, theoretical perspective and conceptual framework.

2.1 Concept of Capital Structure

SMEs capital structure ordinarily follows pecking order behaviour. However, the theoretical underpinnings of the pecking order theory are doubted in the case of SMEs managers who highly value financial freedom, independence and control. The pecking order theory assumes that firms desire financial wealth and usually suffer from severe adverse selection costs in accessing external finance (Lopez-Garcia and Sogorb-Mira, 2008).

Holmes and Kent (1991), proposed a restricted version of pecking order theory to elucidate SMEs capital structure, they argued that SMEs don't have certain access to equity; it is expensive and straining, it implies a dilution of firm control. As per the articulation of Damodaran (2001), capital structure decision is the mix of debt and equity that a company uses to finances its operation. The decisions of the capital structure represent another important decision of a business organization apart from investment decision. It is crucial since it involves huge amount of money and has a long-term implication on the firms. Gleason *et al.,* (2000) propagates that utilization of different levels of debt and equity in the firm's capital structure is one of the specific strategies used by managers of SMEs to foster enhanced performance. Hence

most firms have struggled to achieve an optimal capital structure in order to minimize the cost of capital.

Previous studies have unravelled that small firms finance differs from large firms finance and that optimal capital structure rules are often not applicable to the SMEs (Owino, 2015). Moreover, in the finance literature, optimal capital structure (debt-equity ratio) is defined as that which minimizes the overall cost of financing the venture (Owino, 2015).

2.2 Concept of SMEs Owners Characteristics

The concept of SME owners' characteristics (entrepreneurs' characteristics) comes after McClelland, the behaviorists which dominated the field of entrepreneurship for 20 years, until the early 1980s. Their goal was to define entrepreneurs and their characteristics. The behavioral sciences were expanding rapidly, and there were 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 (Lopez-Garcia and Sogorb-Mira, 2008).

Researches on successful entrepreneurs Filion, (2016) allow practicing and potential SMEs 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, 2019) cited in Burnet, (2018). Altogether, the combination of personal characteristics with background factors or human capital makes some individual more likely entrepreneurial candidates than others (Filion, 2016).

Filion (2016) pointed out an entrepreneur takes initiative; organize some social – economic mechanisms, but he is the person who knows the art of changing the production function for using the economic potential of various factors of production (Hoselitz, 2019).

According to Hisrich (2015) entrepreneurship 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 (2018). 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.

2.3 Theoretical Framework

2.3.1 Human Capital Theory

Human capital is widely believed to improve entrepreneurial capital structure (Stuart and Abetti, 1970). Human capital theory propagates that knowledge provides individuals with increase in their cognitive abilities which leads to more productive and efficient activities (Becker 2017; Davidson and Honig 2018). In the course of entrepreneurial process, individuals are required to have superior ability to successfully exploit opportunities. According to Colombo and Grill (2019), individuals with greater human capital are likely to have better entrepreneurial judgement.

Empirical research has obtained a range of outcomes regarding relationship between entrepreneurial characteristics and business capital structure, but those findings are

not consensual. Studies examining this relationship have not yielded solid results. For instance, Davidson and Hong (2018), suggest that the association between human capital and entrepreneurship capital structure may be confounded by a number of factors including persistence and education.

Hoselitz (2019) pointed out that studies have consistently shown a positive impact of human capital on business capital structure. Hoselitz (2019) found out that human capital does influence business capital structure and entrepreneurial performance substantially. In the study conducted by Bosma *et al.,* (2017) three measures of performance were employed: survival rate, profit and generated employment. Davidson and Honig (2018) 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 competition.

Bartlett and Ghoshal (2016) stipulated that development of human capital is one of key objectives of organizational knowledge-sharing practices. Hsu (2017) examined relationship between these practices and human capital then concluded that as long an human capital is enhanced, human resources can improve their work performance and eventually, entrepreneurial capital structure with new and relevant knowledge.

2.3.2 Leader Motive Profile Theory

Among some of the most important theoretical foundations for entrepreneur characteristics are the studies of the David McClelland (2019) in Leader Motive Theory (LMP), here it is argued that a high-power motivation, higher than the affiliation motive, does predict leader effectiveness. Highly powered-motivated employees tend to acquire great satisfaction from the exercise of influence, their interest in the exercise of leadership is sustainable. His studies in entrepreneurship

concentrate on characteristics of an entrepreneur. McClelland also suggest that, regardless of changes in the economic development, entrepreneurs with high motivation will almost always find ways to maximize economic achievement through identifying proper sources of capital structure. He therefore identified 10 personal entrepreneurial competencies for detecting and strengthening entrepreneurial potential, which are remarkably similar from country to country: opportunity seeking and initiative, risk taking, demand for efficiency and quality, persistence, commitment to work contract, information seeking, goal setting, systematic planning and monitoring, persuasion and networking, and independence and self-confidence (McClelland, 2017). According to McClelland such personal entrepreneurial competencies go a long way to help identify proper capital structure for the business.

McClelland remains the main point of reference for the characteristics of an entrepreneur approach. For example, while Hoselitz (2019), argue in his study on culture and entrepreneurial potential that some cultures are more habitable to entrepreneurial traits than others, he does not challenge the assumptions that characteristics of entrepreneurs are similar across cultures.

Recognizing which need is more vital in any person tend to affect the way in which the person can be motivated. Specifically, achievement motivation is defined as a non-conscious concern for achieving excellence through efforts of an individual. Such individuals tend to set challenging goals for themselves, assume responsibility for goals, take calculated risks to achieve the set goals and collect and utilize information for feedback purposes. Highly motivated managers are also strongly inclined to be personally involved in performing their organizational tasks, However, they may also be reluctant to delegate authority and responsibility. Therefore, high achievement

motivation may be exposed in unsatisfactory performance of high-level executives in large organizations. High achievement motivation has been predicted to contribute to efficient entrepreneurship.

High power motivation is predicted to result in effective performance of managers particularly among middle and high-level positions. However, unless constrained in some manner, some power-motivated managers may also be predicted to exercise power in an aggressive manner for purposes of self-aggrandizing to the detriment of their organizations (McClelland, 2015).

It is assumed that entrepreneurs possess all the three motivations in different degrees, however, one of the motives is usually dominant. Managers need to find out what motivates others and to create appropriate motivating conditions for them. People with achievement motives are motivated by standards of excellence, clarified roles and responsibilities and solid, timely feedback. Those with affiliation motives tend to be motivated when they can finish things with people they understand and trust. The power motive tends to be is activated when people are allowed to have an impact and impress those in power, or beat rivals.

2.4 Empirical Review

2.4.1 Owners' Managerial Competence and Capital Structure

According to Hisrich and Drnovsek (2018), managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the business positively impact on capital structure 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 functional) (Shane *et al*., 2019)**.**

Kiggundu (2019), propagated that overall managerial competencies are attributes of entrepreneurship which include attitudes, beliefs, knowledge, skills, abilities, personality and behavior which is usually directed to achieve success in an organization. He further stated that competencies of an entrepreneur offer realistic perspectives about how to run a business. According to Ahmed *et al.,* (2019), managerial competencies tend to predict success of a business in SMEs in Malaysia. A study by Hoselitz (2019), also shows that an entrepreneurial competency has influential significant effect on the success of a business. Competency of a manager is defined as the individual characteristics including behavior and attitude which enables an entrepreneur to achieve success in a business. In particular entrepreneurial competencies include entrepreneurial traits, motives, self-image, attitude, behavior, skills and knowledge (Bosma, 2019). Entrepreneurial competencies influence significantly to business capital structure (Hoselitz, (2019).

Rao, Kumar and Madhavan (2019) carried out a study on factors driving capital structure decisions of SMEs in India. The factors that were analyzed against capital structure include managerial competency, owner's risk-taking propensity and demographic characteristics of an entrepreneur. Findings of the study proved that managerial competency had a positive influence on capital structure decisions; further results indicated that due to the competence possessed by entrepreneurs, capital structure decisions were enhanced. The study is associated with the following limitation; the dimensions of factors affecting capital structure decisions analyzed were limited, other dimensions such as risk-taking propensity and self-efficacy were not divulged.

Ang & Lawson (2020), analyzed the role of owner in capital structure decisions: an analysis of single-owner corporations' Ghanaian context. The study used a deductive approach. A self-administrated questionnaire was distributed to 240 owners of corporations using non-probability sampling (purposive sampling). The competence of owners of the corporations was among the dimensions used to measure the role of owner in capital structure decisions. The findings confirmed a strong positive relationship between owner role through competence and capital structure decisions. Criticism of this study is associated with the choice of the sampling procedure; the study adopted purposive sampling procedure which is a non-probability sampling technique. This technique entails the researcher relying on his/her own judgement when choosing respondents who form the sample size. Adoption of this procedure usually lead to bias representation of the respondents in the target population thus the results of the above study may be deceptive.

Ndolo (2017), sought to establish effects of selected entrepreneurs' characteristic on capital structure decisions of firms listed at the Nairobi Securities Exchange in Kenya. Among the dimensions of owners' characteristic assessed against capital structure was entrepreneur's managerial skill. The study unraveled an inverse association between entrepreneurial competence and capital structure; the study indicated that entrepreneurial competence did not influence the choice of capital structure but other factors such as gender and age. The study suffered a limitation since it focused on analyzing the linkage between entrepreneurial factors only in relation to capital structure; organizational characteristics were not looked into hence, making the study too shallow for generalization.

2.4.2 Owners' Self-Efficacy and Capital Structure

Lovallo & Kahneman (2017), established that self-efficacy had a direct mediating impact on capital structure of entrepreneurs in today's transitional economy. Bosma (2019), defined self-efficacy as people's judgments of their capabilities to organize and carry out courses of action required to attain designated outcomes. According to Baum *et al.,* (2016), self-efficacy is the ability to master necessary "cognitive, memory processing and behavioral facilities" to deal efficiently with the environment of business (Chen *et al.,* 2018; Luthans *et al.,* 2019). For example, Baron (2016) defined self-efficacy as a "belief in one's ability to master and implement necessary resources, skills and competencies to attain levels of achievement" whereas Krueger *et al*., (2017) defined it as 'the perceived ability to carry out target behavior". In the former, self-efficacy is a confident belief regardless of the actual skills, while the latter self-efficacy involves cognitive and behavioral skills regardless of confidence.

Entrepreneurial self-efficacy (ESE) refers to the degree to which people understand themselves as possessing the ability to successfully carry out various roles and tasks that pertains entrepreneurship as indicated by (Chen *et al.,* 2018). Self-efficacy that is "people's judgements of their abilities to organize and carry out courses of action required to attain designated performances to the extent that their level of motivation and actions as based on what they believe than on what is objectively true". (Bandura, 2015), has been widely applied within many fields to assess the effect of programmers' (Muhindi, 2019).

Mason (2007), established that patent inventors actively involved in the formation of a new business to have higher levels of self-efficacy than patent inventors who had decide not to start a new venture. Krueger *et al.,* (2017) explored self-efficacy to be a

good component of start-up intentions. Mason (2007) described self-efficacy as the main determinant of new venture growth and personal success, and Shane et al., (2091) cite Baum's (2015) research to state that self- efficacy was the only best predictor in the entire array of variables utilized to investigate entrepreneurial outcomes for a group of founders in the architectural woodworking industry. More recently, Mason (2007) explored the role of self-efficacy in the use of decision-making heuristics by entrepreneurs. 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).

Qamar, Farooq & Akhtar (2016) explored determinants of debt financing and their moderating role to leverage-performance relation developing nations. Self-efficacy aspect on an entrepreneur was measured based on the persistence and the ability to maneuver challenging situations by entrepreneurs in their business ventures. Results confirmed that persistent entrepreneurs who circumvent challenges encountered in business stood a better chance of securing adequate capital hence there was a significant positive association between self-efficacy and capital structure.

Olwale & Asah (2018) explored the impact of firm and entrepreneurial characteristics on access to debt finance by SMEs in King Williams' Town, South Africa. A descriptive research design was employed. Results demonstrated a negative correlation between self-efficacy and access to debt finance. The study suffered a weakness associated with ambiguity of components used to measure predictor variables, a total of nine variables were used thus complicating the study.

Munga & Makori (2019) conducted a study on entrepreneurs' characteristics and capital structure of Small and Medium Enterprises in Kenya. Entrepreneurs'

characteristics were measured using the following characteristics of an entrepreneur, self-efficacy, gender, and social networks whereas capital structure was measured in terms of equity, debt and hybrid securities. it was revealed that entrepreneurial self-efficacy had a positive influence on capital structure, it was further established that self-efficacy among entrepreneurs led to more viable decisions in regards to the choice of financing a business.

2.4.3 Owners' Overconfidence and Capital Structure

Studies that have been conducted on overconfidence find great interest in the existing literature for responsive power to overconfidence bias to some financial market puzzles that cannot be narrated by the theory of standard economic. There are many analyses on economic effects of overconfidence on financial markets and firms. Excessive trading volumes in the financial markets, security misevaluation, improper mergers and acquisitions, capital structure decisions that are not perfect (debt levels that are high) is explained by overconfidence bias (Daniel *et al.,* 2018). Studies that used different methodologies shows that factors such as recent achievements and positive past performance of the company, experience of the past, individual personality traits lead to overconfidence (Daniel *et al.,* 2018).

Fairchild's (2019) theoretical model indicates that effects of managerial overconfidence on financing decisions are discussed under two topics; managerial shirking and free cashflow. On the first case, as a result of managerial shirking managers display low levels of effort in running a business. An overconfident manager overestimates his ability, and underestimates distress of financial cost. Therefore, there is a positive association between overconfidence and debt level. In the second model, managers have an urge to use free cash flow to invest in a new

project that may be value-reducing. Different from the first case, overconfidence has an impact on reducing debt. Rational managers prefer borrowing for the knowledge that the new project is value-reducing, but overconfident managers understand the new project as value increasing, and that they reduce the debt level for the new project.

According to Fairchild (2019) there is an association between overconfidence and life-cycle debt in accordance with Damodaran (2015) approach. The level of debt is low in organizations at the early start-up and growth stages for possessing the flexibility to benefit potential projects that are new. The theoretical model alludes that a manager who is overconfident is likely to choose lower debt than a rational manager for the reason of disciplining role of debt becomes vital.

Mefteh & Oliver (2017) shows that managers who are overconfident tend to use high of debt compared to rational mangers. Management of overconfidence is explained with better than average effect, self-attrition bias and illusion of control. Ben-David et al. (2016) explained overconfidence of CFO with miscalibration. They suggest that Chief Financial Officers (CFOs) make miscalibrations in many business decisions including financial decisions. They conclude that firms with CFOs who are overconfident tend to invest more, pay out fewer dividends, use debt more aggressively, engage in market timing, avail more managerial forecasts, and tilt executive compensation towards performance.

Oliver (2019) outlines that firms have a high level of confidence; levels of debt are also high for US firms in the period between 2015 and 2018. Barros and Silveira (2016) found strong evidence between overconfidence and optimism bias on the capital structure decisions of Brazilian non-financial firms listed in the SaoPaulo

Stock Exchange (Bovespa) between 2017 and 2019. Mefteh and Oliver (2017) found an inverse association between investor confidence and level of debt, but positive relationship between management confidence and the level of borrowing. Besides, different from American practices Mefteh and Oliver (2017) suggest that confidence of an investor dominates management confidence, explained with the higher levels of block holder control of businesses in France or the weaker business environment, thereby from an inverse relation between industry sentiment with leverage.

Korkmaz and Cevik (2017) analyzed the behavior of investors. The study noticed that overconfidence among investors increased trading activities after acquiring market return and that they are more active in the bull market, but there was no adequate evidence for the idea of overconfident investors' trade risky assets after getting market return. Overconfidence is associated with calibration and psychology probability judgment. Overconfidence can be defined as miscalibration (Skala, 2017). In this case, the difference between accuracy rate and probability assigned for decision making problem is considered as overconfidence. In the case of financial sense, overconfidence is considered as overestimation for the certainty or interpretation of one's own knowledge or private information (Skala, 2017). Particularly, dangerous cognitive bias for entrepreneurs because overconfidence can cause them to assume unnecessary risks and compromise the survival of a business (Lovallo and Kahneman, 2017). Hackbarth (2017) also tested the effects of overconfidence of the CEO on corporate behavior, and similarly realized that businesses with overconfident managers are associated with higher leverage ratios.

Ang & Lawson (2020) analyzed the role of owner in capital structure decisions: an analysis of single-owner corporations' Ghanaian context. The study used a deductive

approach. A self-administrated questionnaire was distributed to 240 owners of corporations using non-probability sampling (purposive sampling). Overconfidence among owners of the corporations was among the dimensions used to measure the role of owner in capital structure decisions. The findings confirmed a strong positive relationship between overconfidence and capital structure decisions Criticism of this study is associated with the choice of the sampling procedure; the study adopted purposive sampling procedure which is a non-probability sampling technique. This technique entails the researcher relying on his/her own judgement when choosing respondents who form the sample size. Adoption of this procedure usually lead to bias representation of the respondents in the target population thus the results of the above study may be deceptive.

Ondiege (2019) examined capital and performance of small enterprises in Kenya. The study employed descriptive research design with a sample size of 223. The study used semi-structured questionnaires with both closed and open-ended questions to collect data. Among the major findings revealed were; overconfidence influenced performance of the enterprises. The study suffered a weakness in that it was only confined in two enterprises, hence generalizing the results to the rest of the country could be deceptive. Similarly, Omwenga & Mironga (2019) analyzed determinants of capital structure in the Kenyan Police SACCO. The outcome of the study established that overconfidence among entrepreneurs played a positive significant role in influencing capital structures. This study however suffered a setback in that it was confined in one organization only (Kenyan Police SACCO) alone hence generalization of the findings to the rest of country may be misleading.

2.4.4 Owners' Social Networks and Capital Structure

Social networks are referred to a set of actors (individuals or organizations) and a set of linkages between these actors (Brass, 2016). Social networks have been shown to be important for achieving entrepreneurship capital structure and business Success (Hoang and Antoncic, 2018).

Networks that are directly useful for business owners are business networks (related to other business agents in the market), and networks with officials in the government. Business networks are related to the supply chain and to competitors and thus, include relationships with suppliers, competitors, customers, business partners and investors. Social networks have been theorized to play a vital role in entrepreneurship process. The literature in the entrepreneurial network development suggests that it is function of venture lifecycles (Steiner and Greenwood, 2015), industry and region (Johannisson, 2016).

Batjargal (2016) demonstrated that social networks development on network size and the growth of revenue of previous years was enormous; he added that it is necessary to reiterate the active nature (or internal factors) of network development in the literature of entrepreneurship (Anderson and Jack, 2015). The active orientation of business owners should also play an important role in networks development (Baron and Markman 2017; Johannisson 2018; Frese and Fay 2019). In other words, entrepreneurs as interactive agents create conditions for development of the growth of their firms.

Qamar, Farooq & Akhtar (2016) explored determinants of debt financing and their moderating role to leverage-performance relation in developing nations. Social-networks aspect of an entrepreneur was measured based on the connections that

existed between the entrepreneurs and the environment. Dimensions such as the connection between the entrepreneur and; the financial institutions, government and with friends who could avail capital to the enterprise were assessed. Results confirmed that well connected entrepreneurs stood a better chance of securing adequate capital hence there was a significant positive association between social networks and capital structure.

Kamau & Mwangi (2017) investigated socio-economic determinants of performance of small and medium enterprises (SMEs) in Gilgil Town of Nakuru County, Kenya. Descriptive research design was adopted with a target population of 132 which comprised of only owners of the SMEs. Social-networks were among the components used to measure socio-economic factors against capital structure decisions. it was illustrated that social-networks had an inverse association with capital structure decisions. The study suffered a limitation related to the choice of respondents; only owners of the SMEs were considered for the study, incorporating top managers in the SMEs could have shaded more light on the findings.

Ndolo (2017) sought to establish effects of selected entrepreneurs' characteristic on capital structure decisions of firms Listed at The Nairobi Securities Exchange in Kenya. Ability among the entrepreneurs to connect with the environment surrounding their ventures was assessed. Findings showed negative association between social networks and capital structure. The study suffered a limitation since it focused on analyzing the linkage between entrepreneurial factors only in relation to capital structure, organizational characteristics were not looked into hence, making the study too shallow for generalization.

2.4.5 Owners Risk-Taking and Capital Structure

Personal risk characteristics as a crucial component in traditional capital structure theory requires that risk taking initiatives should be more necessary in order to attain good outcomes in hostile markets. In other words, business owners or managers who dare take more risks take action that are more suitable and deliver better. Mefteh, & Oliver (2017) contend that organizations which have an international vision, favorable perceptions and attitudes towards international business and are willing to take risks and that have the capacity to engage positively in international business activities is likely to lead a company to business success. In order to minimize risks, entrepreneurs are required to identify robust variables that can influence their businesses' performance. If they have a higher risk-taking propensity, this will definitely affect the business performance positively.

Begley (2017) referred risk-taking propensity to the willingness to take moderate risks. This means that when entrepreneurs face different situations, they tend to show different levels of risk propensities. At the same time, different entrepreneurs who face much better situations present different risk propensities. Entrepreneurs are willing to accept the unknown. They are distinctively able to start and orchestrate events that have risk consequences (Milton, 2016). Generally, in many entrepreneurship studies, it has been established that successful entrepreneurs are moderate risk-takers (Bridge, O'Neil, & Cromie, 2018).

Douglas and Shepherd (2015) noticed that those entrepreneurs with a greater risk acceptance had stronger levels of entrepreneurial intention. Past study by Shivani, Mukherjee and Sharan (2016) used Risk Attitude Inventory designed by (Mefteh & Oliver, 2017) to measure risk taking propensity. The maximum score was 15 which

indicated the higher the total score, the higher will be the risk-taking propensity. The score ranged from 0-5 were categorized as having low risk-taking propensity, scores from 6-10 were considered moderate risk-taking propensity, and the scores from 11-15 were looked into as having a high risk-taking propensity. The study established that a substantial proportion of respondents had low level of risk-taking propensity. However, the study noticed no difference in the risk-taking propensity between male and female respondents.

Skala (2017), carried out a study on the risk-taking propensities among women who are owners of businesses and the age impact of such activities. The questionnaires were distributed to 1600 SMEs in regional and metropolitan Western Australia and the response rate was 30%. The study established that there were some gender differences with women being more emotionally and financially risk averse compared to older people, irrespective of gender respondents were more emotionally and financially risk averse than their male counterparts; with regards to age, younger people irrespective of gender were more emotionally and financially risk averse compared to older people. There was also difference between and age cohorts with regards to initial business start-up motivation. The study concluded that self-employment might be a viable alternative for all younger women, given that many of them had to balance between work and family.

Shane (2019) studied demographic factors of SMEs enterprise attitudes in Cuddalore district of Tamilnadu, India. They stated that attitudes of entrepreneurs can make the entrepreneurs strong and be more successful in their business. They also found that age and ownership were related significantly to risk-taking. The study concluded that entrepreneurial attitudes increased as the increase of age, income, change in marital

status and type of ownership. The personal attributes included gender, age, educational level and business experience. These characteristics served as the demographic profile of respondents functioning as independent variables to be examined in order to find their possible relationship with risk taking propensity. Comparison among some demographic factors such as gender, age, education level, business experience, and risk-taking propensity were carried out. For instance, the risk-taking propensity was measured using Risk Attitudes Inventory designed by (Mefteh & Oliver, 2017).

Olwale & Asah (2018) explored the impact of firm and entrepreneurial characteristics on access to debt finance by SMEs in King Williams' Town, South Africa. A descriptive research design was employed. Results demonstrated a negative correlation between risk-taking propensity and access to debt finance. The study suffered a weakness associated with ambiguity of components used to measure predictor variables, a total of nine variables were used thus complicating the study.

Omwenga & Mironga (2019) analyzed determinants of capital structure in the Kenyan Police SACCO. Risk-taking propensity among the entrepreneurs was among the components used as independent variable. The outcome of the study established that risk-taking propensity among entrepreneurs played a positive significant role in influencing capital structures. It was demystified that those entrepreneurs who exhibited risk-taking capability were in a position to utilize various sources of capital that enabled the enterprises to thrive. This study suffered a setback in that it was confined in one organization only (Kenyan Police SACCO) alone hence generalization of the findings to the rest of country may be misleading.

Ondiege (2019) examined capital and performance of small enterprises in Kenya. The study employed descriptive research design with a sample size of 223. The study used semi-structured questionnaires with both closed and open-ended questions to collect data. Among the major findings revealed were; risk taking influenced performance of the enterprises. The study suffered a weakness in that it was only confined in two enterprises, hence generalizing the results to the rest of the country could be deceptive.

2.5 Conceptual Framework

The model in Figure 2.1 below shows the Independent Variables (owners' characteristics) and how they affect Dependent Variable (SME capital structure). Owners' characteristics are reflected in dimensions of owners' managerial competence, self-efficacy, overconfidence social networks and risk taking. Baum (2015) tested a multidimensional model of venture growth by incorporating the individual (characters), the firm (competitive strategy), and environmental variables. Theoretically, relative to people with low leadership attributes, people with this character should find out more effort and persist towards acquiring valued outcomes as result of high levels of uncertainty and very rapid rate of change that characterise new ventures, there is therefore need for fluid and highly adaptive forms of organization that can respond quickly and effectively. Successful entrepreneurs believe in the idea that their accomplishments and setbacks lie within their own control and influence and that they can affect the outcome. These variables and processes help to explain the actual SME owners' characteristics affecting capital structure in the Kenyan context.

Independent Variable   **Dependent Variable**

Owners' Characteristics   **Capital Structure**
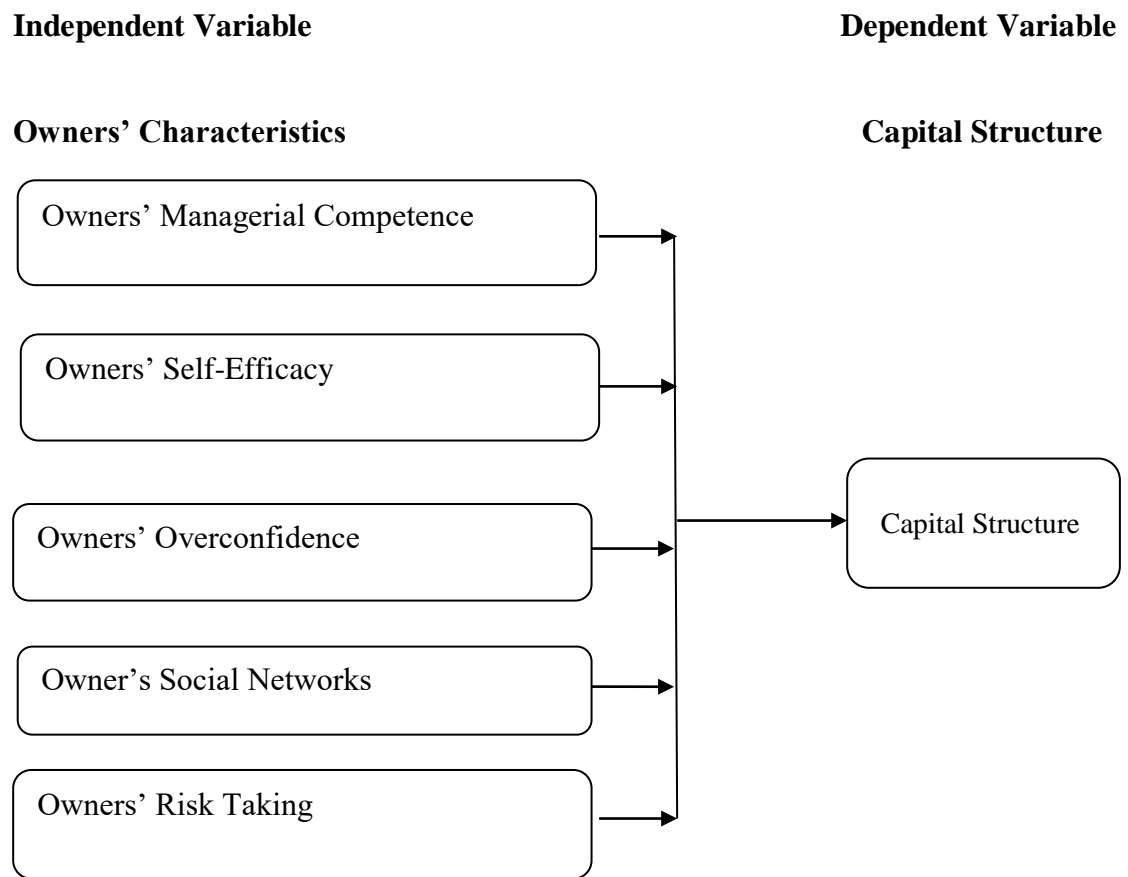
Figure 2. 1 Conceptual Framework

Source: (Researcher, 2022)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter covers the research design, target population, sampling procedure and sample size, data collection method, data validity and reliability, data analysis and presentation and ethical consideration.

3.1 Research Design

According to Saunders *et al.,* (2009) research design is expressed as a representation for carrying out a study in a way that maximum control is utilized over aspects that could affect research results validity. Explanatory research design was adopted in this study; this was due to the fact that the study is a cause effect relationship. Explanatory research design is best suited for investigating owners' SME characteristics and capital structure.

Explanatory research brings into focus causal relationship design and why questions. Responding to 'why' questions embrace developing of causal explanations. Causal explanations state that (capital structure) phenomenon Y is affected by owner's characteristics which is factor X. Several casual explanations were easier while others were more difficult. For example Mefteh & Oliver (2017) argued that there is a direct effect of owner's characteristics on capital structure.

3.2 Target Population

According to Sekaran (2009), a target population is described as the whole set of individuals or objects that share some similar characteristics that the research has interest in them. A target population comprises of sample or studied cases as well as the unstudied cases (Gerring, 2004). The studied population comprised of small and

medium enterprises which were registered and were in Eldoret CBD which is located in Uasin Gishu County. There were 3252 registered SMEs (County Government of Uasin Gishu Licensing Department, 2019). The number of SMEs that were registered as companies under the Companies Act (Cap 486) was 295 SMEs only. The 295 SMEs was targeted in the study within the following sections, Agriculture, Small Loan Enterprises, Colleges, Spare shops, Security Services, Electrical Supplies, Computer Accessories, General Shops, Book Shops, Workshops and Carpentry. The law requires that companies or business owners should keep proper books of accounts. Therefore, it was necessary to focus on the 295 SMEs because they kept proper books of accounts.

3.3 Sample Size and Sampling Design

Gerring (2004), states that a sample in a case study is comprised of several units which are observed at discrete points in time in regard to the study variables. Yamane (1973) sample size formula was utilized to arrive at a sample size of 170 SMEs, from the target population of 295 SMEs was as shown below;

$$n = \frac{N}{1 + N(e)^2} = \frac{295}{1 + 295(0.05)^2} = 170$$

Where: n = Sample size

N = Population size

e = the sampling error

The sampling error of 0.05 of the study was allowed, hence 170 SMEs was the sample size of the study.

3.3.1 Sampling Procedure

Stratified random sampling technique was used in the study to select the SMEs where managers or owners were chosen from. SMEs were stratified into four strata or sectors and Sekaran (2009) allocation formula was used to distribute the sample sizes. In order to maximize survey precision with a given fixed sample size it was prudent to use stratified random sampling. According to Sekaran (2009) allocation, the sample size for stratum would be:

$$n_{h=} \left({N_h}/{N} \right) n$$

Whereby,

nh - Sample size for stratum h,

n - Stands for total sample size

N – is the total population

Thus, the distribution was as below;

Table 3. 1 Sampling Procedure

Name of SMEs	Target population	Calculation	Sample size of SMEs
Computer Accessory	55	55/295x170	32
Microfinance enterprise	30	30/295x170	17
Education institution	30	30/295x170	17
Spares/Hardware	45	45/295x170	26
Security Service	40	40/295x170	23
Electrical Supply	30	30/295x170	17
General Shop	30	30/295x170	17
Bookshop	35	35/295x170	21
Total	**295**		**170**

Source: (Uasin Gishu County Government, 2022)

SMEs were assigned random numbers by the researcher in each street and max-value of the sampling interval, the number of individuals in the population was divided by the number of individuals who were to be chosen for the sample was calculated. Select a random number between one and the maximum- value and repeatedly add the max value to select the rest the SMEs and pick the sample by choosing the SMEs corresponding to the number of sequences obtained.

3.4 Data Collection

3.4.1 Data Types and Sources

The research utilized primary data. The data was obtained from questionnaires which were adopted for the study.

3.4.2 Data Collection Instruments

The primary data required for the research was obtained through questionnaires which were self-administered by the researcher in the field. According to Saunder *et al., (*2017) questionnaires are suitable for surveys. 5- point Likert scale was employed by the research in relation to relating of the various responses. The respondents were required to read, understand and tick an appropriate rating. The respondents were made up of SMEs owners in Eldoret CBD. In order to obtain more information and clarity from respondents the questionnaires were administered by the researcher.

3.4.3 Validity and Reliability of the Instruments

Validity is the quality attributed to proposition or measure of the degree to which they conform to establish the truth (Sekaran, 2009). Validity was achieved by conducting a pilot test in this study. A pilot test was carried out in Iten (CBD), Elgeyo Marakwet County. The study helped to ascertain whether questionnaire measured what it was intended to measure. The rationale behind the choice of Iten (CBD) is that it had the desired social economic characteristics of trade, moreover factors affecting SMEs in relation to owners characteristics are similar. The purpose of construct validity is to show that the items measures are correlated with what they purport to measure and that the items do not correlate with other constructs.

According to Sekaran (2009), In order to determine reliability, Cronbach's alpha was applied, whereby Cronbach's coefficient, having a value of more than 0.5 is considered reliable for such explanatory work. Results of internal reliability of the research instruments have been shown in Table 3.2 below.

Table 3. 2 Summary of Reliability Test from Responses on Scale Items

Scale	No of Questionnaire items	Cronbach's alpha
Owners' Managerial Competence	6	0.940
Owners' Self-Efficacy	6	0.840
Owners' Overconfidence	5	0.850
Owners' Social Networks	4	0.747
Owners Risk-Taking	5	0.847
Capital Structure	4	0.845

Source: (Field work, 2022)

The above table is a summary of the reliability test based on the Cronbach alpha coefficient for the six scales items in the survey instrument. The Cronbach's alpha value were all above 0.7, therefore the internal consistency reliability of the measures was excellent.

3.5 Measurement of Variables

Dependent variable

Capital structure is defined as the mix of debt and equity that a company uses to finance its business operations (Damodaran, 2015). In order to obtain information of whether SMEs has been financed through retained earnings or debt the study utilized 5 Likert scale questionnaires.

Independent Variable

Managerial competencies were measured by education, managerial experience, start-up experience and knowledge of the business in relation to capital structure of SMEs). Attitudes, beliefs, skills, abilities, personality and behavior also forms part of managerial competencies and can be directed to achieve entrepreneurial success (Hisrich and Drnovsek, 2018).

Self-efficacy was measured by looking at how well an entrepreneur is able to manage business activities based on the skills they had and the prevailing circumstances in a given time. Self-efficacy tends to allow an entrepreneur 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, 2016).

Overconfidence as argued by Skala (2017), it was measured by assessing the entrepreneur's highly set estimate or interpretation of one's own knowledge or secretes information regarding business.

Social networks were measured by looking at the set of linkages between actors in SMEs that enable them to access pertinent resources in regards to the operation of their enterprises (Brass, 2019).

Owners' risk taking was measured by looking at the ability for an entrepreneur to pursue an investment in relation to entrepreneurship which puts his/her resources at risk before experiencing a return on the same (Skala, 2017).

3.6 Data Analysis and Presentation

Descriptive statistics, inferential, correlation and multiple regressions was used to analyse the data, because the data collected was quantitative in nature and sought to determine the degree of association and the cause- effect relation that exist between the variables.

In order to test for normality of data collected, descriptive statistics was used. Computation of measure of central tendency such as mean and standard deviation was applied to check if it answers the research questions. Inferential statistics was used to

draw conclusions from the data with regard to the regression model. Test of hypothesis in the study, regression analysis was used.

To estimate the effects of single dependent variable on multiple independent variables multiple regressions was used for prediction purposes (Saunders *et al.*, 2009). Regression model was used to analyse data. Hypothesis testing about the relationship between the dependent variable and the dependent variable, regression analysis was used.

The multiple regression model used in this study is as below;

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \varepsilon$$

Y=SME capital structure

β_0 = constant.

$\beta_1 = \beta_2$ is equal to the slope which represents the degree in which SMEs performance changes as the independent variable change by one-unit variables.

x_1= SMEs Owners' Managerial Competence

x_2= SMEs Owners' self-efficacy

x_3= SMEs Owners' Overconfidence,

x_4=SMEs Owners' social networks

x_5= SMEs Owners' risk taking

ε = error term

3.7 Assumptions of Regression Model

Just like other parametric tests, regression model is based on the assumption that data has certain characteristics, violation of which affects analyzed findings (Field, 2017). The assumptions include; observations are of independent samples, data is drawn from normally distributed populations, populations have the same variances linear association between variables among others. The study considered variety of tests to ensure the assumptions are not violated. The tests include: normality, linearity and multicollinearity to establish suitability of the data for making inferences and drawing conclusions.

Normality has been postulated as a vital assumption that must be satisfied in order to conduct multivariate analysis (Ghasemi & Zahediasl, 2012). Normality assumes that prediction residuals in the prediction value of the dependent variable follow a normal distribution. The normality of the data in the current study was tested using a combination of Shapiro-wilk, and the Kolmogorov-Smirnoff statistics as recommended by (Ghasemi & Zahediasl, 2012). Under the Shapiro-Wilk and Kolmogorov-Smirnoff framework, non-significant statistics is an indication of existence of normality (Shapiro & Wilk, 1965).

Multicollinearity constitutes high coefficients of correlation in two or more predictor variable, which when it exists impacts negatively on regression parameter estimation (Hair *et al.*, 2006). Presence of multicollinearity masks the assessment, and hypotheses testing about regression coefficients (Hair *et al.*, 2006). Hair *et al.*, (2006) argues that if the tolerance between explanatory variables is less than 0.05, then it indicates the presence of multicollinearity. Furthermore, it is posited that if the Variance Inflated Factor (VIF) is greater than 10, there is evidence of

multicollinearity (Ghasemi & Zahediasl, 2012). Therefore, the study employed both the tolerance and VIF to test for existence of multicollinearity.

Linearity means the correlation between variables, which is represented by a straight line. Knowing the level of the relationship among variables is an important element in data analysis. This will be tested using Pearson Correlations.

3.8 Ethical Consideration

The researcher obtained a letter for permission from the school of business and economics, Moi University to proceed to field for research and a research permit from the National Commission of Science and Technology (NACOSTI) to allow the researcher to carry out the study.

The researcher used the information collected strictly for the purpose of this study and did not give to any other party. The information obtained from the respondents through questionnaires was treated with high degree of confidentiality without disclosure of identity of the respondents, and were open minded as possible and expressed opinions as they were given or asked. The researcher did not alter or edit any responses and was very appreciative of all the literature that has contributed in one way or another on this research.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

The chapter shows the results of the study that were established on the formulated objectives and hypotheses. The chapter analyses the variables involved in the study and estimate the conceptual model as described in chapter two. The first two sections cover the data description and data analysis. Interpretation of model estimation and the analysis of the results are done. Testing of hypotheses depending on the p values and t test value was either accepted or rejected.

4.2 Response Rate

The total number of questionnaires that were administered was 170 to the target respondents that included the SMEs owners/managers from SMEs within Eldoret Town. Out of all the issued questionnaires, 164 questionnaires were dully filled by respondents and were returned. This summed up to 96.5% response rate. According to Saunders, Lewis, & Thornhill (2009), response rate of 50% and above is considered as adequate for analysis, 60% is considered as good and anything above 70 percent is rated as very good. Enough time was given to respondents as the research anticipated that the respondents of the study would have tight schedules due to their nature of work and in return it led to high response rate. The table below illustrates the response rate.

Table 4. 1 Response Rate Table

Responses	Statistics
Initial Sample size	170
Spoiled questionnaires	4
Number of forms received	166
Incomplete forms	2
Number of useable forms	164
Response rate	**96.5%**

Source: (field data, 2022)

4.3 Demographic Information

The researcher aspired to establish the demographic information of the SMEs owners, which formed the basis under which the interpretation were made. Table 4.2 presents information related to demographic information. Relating to the age of the businesses, findings from the research revealed that 31.7% (52) of the businesses have been operating between 6 to 10 years, 22.6% (37) of the businesses have been in operations for 16 to 20 years, 21.3% (35) of the business have been operating for 11 to 15 years, whereas 12.8% (21) have operated for less than 5 years and least being 11.6% (19) of the businesses that have operated for over 20 years.

In terms of number of employees, 50% (82) of the SMEs had between 0 to 20 employees, 39% (64) of the SMEs had 21-40 employees, 1.2% (2) of the SMEs had between 41-60 employees and 9.8% (16) of the SMEs had between 61-80 employees.

The researcher also needed to know the respondent's level of education. In order to know the level of literacy level of respondents it was necessary to know the level of their education. The study found out that the majority 40.9% (67) of the respondents

had progressed up to secondary education, followed by 31.1% (51) of the respondents who had reached degree level. Additionally, 23.2% (38) of the respondents had reached diploma level while 3% (5) had progressed up to Masters level. However, only 1.2% (2) had reached primary level of education.

The researcher also found it necessary to establish the type of business respondents were venturing in. Research findings revealed that most 26.8% (44) of the respondents ventured in spares shop/hardware followed closely by 20.1% (33) of the respondents that ventured in colleges,18.3% (30) of the respondents specialized in electrical supplies,15.9% (26) of the respondents ventured in shops,9.1% (15) in security services,7.3% (12) of the respondents in bookshops,1.8% (3) in small loan enterprises while the least being 0.6% (1) venturing in computer lab. The findings showed that venturing in spares shop/hardware was the most viable in the study area. Majority 81.7% (137) of the respondents were sole proprietors while 18.3% (30) of the respondents were in partnership. Below is a table illustrating demographic information.

Table 4. 2 Demographic Information

		Frequency	Percent
Age of Business	0-5 years	21	12.8
	6-10 years	52	31.7
	11-15 years	35	21.3
	16-20 years	37	22.6
	above 20 years	19	11.6
	Total	**164**	**100**
Number of Employees	0 - 20	82	50
	21 - 40	64	39
	41 – 60	2	1.2
	61 – 80	16	9.8
	Total	**164**	**100**
Level of Education			
	Masters	1	0.6
	Degree	51	31.1
	Diploma	38	23.2
	Secondary Education	67	40.9
	Primary Education	2	1.2
	Total	**164**	**100**
Type of Your Business			
	Computer Accessory	1	0.6
	Small loan enterprise	3	1.8
	Education Institution	33	20.1
	Spares Shop/Hardware	44	26.8
	Security Service	15	9.1
	Electrical Supply	30	18.3
	General Shop	26	15.9
	Bookshop	12	7.3
	Total	**164**	**99.9**
Ownership type of the Business	Sole proprietor	134	81.7
	Partnership	30	18.3
	Total	**164**	**100**

Source: (Field data, 2022)

4.4 Capital Structure

The researcher ought to find out capital structure decision by the SMEs. According to table 4.3 below, findings revealed that respondents were not certain whether they tend to prefer utilizing long term loans to finance their SME (mean = 3.38). Further they were also impartial on whether they tend to prefer using donations from family

members and friends (mean = 2.96). Nonetheless, the use of trade credit by the SMEs in its operations was not embraced (mean =2.35). Similarly, respondents do not prefer utilizing short term loans to finance operations of SME (mean = 1.9). Findings regarding SME capital structure added up to 2.64 mean standard deviation of 1.630, Skewness of 0.1254 and a kurtosis of 1.192.

Table 4. 3 Capital Structure

	Mean	Std. Deviation	Skewness	Kurtosis
I tend to prefer utilizing short term loans to finance operations of my SME	1.9	1.588	1.4	0.081
I tend to prefer utilizing long term loans to finance operations of my SME	3.38	1.961	-0.393	-1.86
I tend to prefer utilizing trade credit operations of my SME	2.35	0.97	-0.436	-0.968
I tend to prefer using donations from family members and friends	2.96	2.001	0.045	-2.019
Capital Structure	2.64	1.630	0.154	-1.192

Source: (Field data, 2022)

4.5 Owners' Managerial Competence

According to table 4.4, in terms of owners' managerial competence, it was noted that respondents like winning and competing over anything (mean = 4.99). Likewise, they are also able to make commitments very fast (mean = 4.99). Furthermore, respondents also affirmed that they have been managing their business for many years (mean =4.45). However, respondents were impartial on whether they have attended training in business management (mean =2.66). Further, respondents disapproved that they have been in management for larger firms (mean = 2.45) and that they have a degree in business and management. Generally, owners' managerial competence summed up

to mean of 3.63, standard deviation 0.956, skewness 0.443 and kurtosis had a negative of -1.285.

Table 4. 4 Owners' Managerial Competence

	Mean	Std. Deviation	Skewness	Kurtosis
I have academic qualifications in regards to business and management	2.24	1.837	0.824	-1.318
I have attended training in business management	2.66	1.868	0.276	-1.863
I have been managing my business for many years	4.45	1.326	-2.171	2.886
I have been in management for larger firms	2.45	1.891	0.57	-1.662
I am able to make commitments very fast	4.99	0.11	-8.971	79.45
I like winning and competing over anything	4.99	0.11	-8.971	79.45
Owners' managerial competence	**3.63**	**0.956**	**0.443**	**-1.285**

Source: (Field data, 2022)

4.6 SME Owner Self-Efficacy

According to table 4.5, in relation to SME owner's self- efficacy, SME owners affirmed that they are confident that they are able to succeed in any business (mean =4.98). Likewise, they are confident that they can solve any challenges that face their business (mean = 4.98) and they are confident that any business they start, it must succeed (mean = 4.98). Further findings showed that SME owners are self-driven (mean = 4.98) and that they can change their businesses to any kind of business they desire or of choice (mean = 4.97). Additionally, SME owners don't believe in becoming failure (mean = 4.38). Findings concerning SME owner's self-efficacy

summed to mean of 4.88, standard deviation of 0.26, skewness of -1.896 and kurtosis

of 1.913.

Table 4. 5 Owners Self-Efficacy

	Mean	Std Deviation	Skewness	Kurtosis
I am confident that am able to succeed in any business	4.98	0.11	-8.971	79.45
I don't believe on becoming a failure	4.39	1.44	-1.931	1.777
I am confident that any challenges that face my business I can solve	4.98	0.11	-8.971	79.45
I am confident that any business that I start it has to be successful	4.98	0.11	-8.943	78.95
I believe I can change my business to any kind of business I desire	4.97	0.172	-5.512	28.736
I am a Self-driven	4.98	0.11	-8.971	79.45
SMEs Self Efficacy	**4.88**	**0.260**	**-1.896**	**1.913**

Source: (Field data, 2022)

4.7 Owners' Over Confidence

The researcher established that it was necessary to know the level of optimism SMEs

owners felt about their business expectations. According to table 4.6, study findings

showed that SMEs owners achievement needs were high with a mean of 4.97. Further,

when they are dealing with obstacles, they are able to overcome them successfully

(mean = 4.78). Similarly, they attained target goals they set for themselves (mean =

4.73). SME owners were capable of venturing into new projects even if the results

were uncertain (mean = 4.61). SME owners further confirmed that they complete new

tasks successful (mean = 4.47). In summary, findings on SME owners over

confidence come up to a mean of 4.71 while standard deviation was 0.306 and

skewness and kurtosis were -0.936 and 0.021 respectively.

Table 4. 6 Owners over Confidence

	Mean	Std Deviation	Skewness	Kurtosis
I believe I can complete new tasks successfully	4.47	0.704	-0.999	-0.321
Do you achieve the target goals you set for yourself	4.73	0.452	-0.986	-1.04
I succeed in confronting obstacles	4.78	0.408	-1.457	0.125
I take on new projects even if the results are uncertain	4.61	0.651	-1.401	0.707
I have high achievement needs	4.97	0.133	-0.256	0.272
Owners' Overconfidence	**4.71**	**0.306**	**-0.936**	**0.021**

Source: (Field data, 2022)

4.8 Owners' Social Network

According to table 4.7, regarding to owners' social network, research results showed that SMEs owners were able to interact with influential suppliers (mean = 4.87). Further, the researched revealed that, SMEs owner's had friends who many at times assisted them when they are faced with business challenges (mean = 4.18). Also, in the County and National government they have connections with successful people (mean = 3.95). However, respondents were uncommitted on whether they are invited by famous business people for business discussions in Kenya (men = 3.50). Similarly, they were neutral regarding whether they had strong connections with majority of commercial banks in Kenya (mean = 3.47). Overall findings in relation to owners' social network summed up to a mean of 3.99, standard deviation of 0.593, skewness of -0.375 and Kurtosis was negative -0.092.

Table 4. 7 Owners' Social Network

	Mean	Std Deviation	Skewness	Kurtosis
Anytime, am faced with business challenges there are friends who supports me	4.18	1.433	-1.593	0.89
In National and County government I have connections with "big" people	3.95	1.46	-0.927	-0.779
I have strong connections with majority of commercial banks in Kenya	3.47	1.634	-0.482	-1.446
I can easily interact with most influential suppliers	4.87	0.347	-2.091	2.403
Am always invited by famous business people for a cup of coffee within my county	3.50	0.944	0.40	-0.518
Owners Social Network	**3.99**	**0.593**	**-0.375**	**-0.092**

Source: (Field data, 2022)

4.9 Owners Risk Taking

It was considered important by the researcher to establish owner's risk taking. According to table 4.8, research findings displayed that respondents were able to encourage and convince others to share inherent financial and business risks (mean = 4.8) and maximize their chances in a given opportunity (mean = 4.68). Further, respondents are able to calculate risks (mean = 4.66) and prefer the tried and tested (mean = 4.46). Similarly, respondents carefully analyze the situations before acting (mean = 4.35) and have preference for high-risk projects (mean = 4.34). They let other firms assume risk of innovation before adapting (mean= 3.75). Generally, owners risk taking summed up to a mean of 4.43, standard deviation 0.45847, Skewness -1 and a negative kurtosis of -0.257.

Table 4. 8 Owners Risk Taking

	Mean	Std. Deviation	Skewness	Kurtosis
Do you have preference for high-risk projects	4.34	0.619	-0.369	-0.651
I calculate risks	4.66	0.476	-0.675	-1.564
I am good at convincing other business owners to share business risks and inherent risks	4.8	0.402	-1.504	0.266
Do you maximize the chances in a given opportunity	4.68	0.467	-0.793	-1.387
Do you carefully analyze the situations before acting	4.35	0.78	-0.697	-1.014
I prefer the tried and tested	4.46	0.817	-1.572	1.918
I let other firms lead the way of innovation and assume risks before adopting	3.75	1.137	-0.585	-1.08
Owners Risk Taking	**4.43**	**0.458**	**-1.000**	**-0.257**

Source: (Field data, 2022)

4.10 Factor Analysis

Table 4.9 displays the factor loading as sorted by size for each item. According to TohTsu Wei *et al*., (2018), factor loading value that is more than 0.5 and loads on one and only one factor and any item that fails to meet this criterion is dropped from the study. Components matrix in factor analysis showed the components matrix before rotation. The matrix contained the loading of each variable on each factor. The research study requested that all loading that were less than 0.5 be suppressed in the output. The study showed that majority of the values for all the factors were more than 0.5 in observation in the accepted value of factor loading.

Table 4. 9 Factor Analysis

	X1	X2	X3	X4	X5
I have degree in business and management	0.966				
I have attended training on business management	0.977				
I have been managing my business for many years	0.909				
I have been a manager for large firms	0.911				
I am able to make commitments very fast	0.990				
I like winning and competing over anything	0.99				
I am confident that am able to succeed in any business		0.99			
I don't believe on becoming a failure		0.959			
I am confident that any challenges that face my business I can solve		0.99			
I am confident that any business that I start it has to be successful		0.99			
I believe I can change my business to any kind of business I desire		0.534			
I am a Self-driven		0.99			
I believe I can complete new tasks successfully			0.957		
Do you achieve the target goals you set for yourself			0.975		
I succeed in confronting obstacles			0.966		
I take on new projects even if the results are uncertain			0.937		
I have high achievement needs			0.313		
Many times, am faced with business challenges there are friends who supports me				0.959	
In National and County government I have connections with "big" people				0.848	
I have strong connections with majority of commercial banks in Kenya				0.955	
I can easily interact with most influential suppliers				0.905	
Am always invited by famous business people for a cup of coffee within my county				0.946	
I have preference for high risk projects					0.968
I calculate risks					0.97
I am good at convincing other business owners to share business risks and inherent risks					0.974
I usually maximize the chances in a given opportunity					0.949
I carefully analyze the situations before acting					0.983
I prefer the tried and tested					0.905
I let other firms lead the way of innovation and assume risks before adopting					0.93

Extraction method: Principal Component Analysis

Source: (Field data, 2022)

Furthermore, a cumulative variance of 66.424% of the total variation was obtained. Kaiser- Meyer – Olkin (KMO) was used to test sampling adequacy. The table 4.10 below shows KMO was greater than 0.5 (0.935), while Barlett's Test was significant at χ2(78) = 3297.69 and p-value <0.001.

Table 4. 10 KMO and Bartlett's Test

Total Initial Eigen values	% of Variance	Cumulative %
3.114	23.956	23.956
3.021	23.242	47.197
2.499	19.226	66.423
KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.935	
Bartlett's Test of Sphericity Approx. Chi-Square	3297.69	

Source: (Field data, 2022)

4.11 Diagnostic Tests

Tabachnick & Fidell, (2019), states that multiple regressions test of assumptions are important to justify the use of multiple regressions for determination of drawing inferences or making predictions. The assumptions of multiple regressions tested in the study are linearity, normality and multicollinearity.

4.11.1 Test for Normality

In order to identify the shape of a distribution normality of data is used. The value of skewness should be near zero (0), for normal distribution to be desirable. Shapiro and Wilk and Kolmogorov- Smirnova were used (as propounded by Shapiro & Wilk, 2017), to identify the shape of distribution and which were calculated for each variable. The criteria used here to explain if data came from a normal distribution is that p value should be more than 0.000. The result on table 4.11 below shows the results from these tests showed that all the variables were not significant, which

means they met the assumption of normality. The research can be concluded that the data used came from normal distribution.

Table 4. 11 Test for Normality

	Shapiro-Wilk			Kolmogorov-Smirnova		
	Statistic	df	Sig.	Statistic	df	Sig.
SME Capital structure	0.942	164	0.291	0.918	164	0.154
Managerial competence	0.925	164	0.141	0.962	164	0.089
Self-efficacy	0.964	164	0.637	0.966	164	0.083
Overconfidence	0.976	164	0.702	0.971	164	0.133
Social network	0.138	164	0.200	0.94	164	0.197

Source: (Field data, 2022)

4.11.2 Test for Multicollinearity

Multicollinearity means that two or more of the independent variables are highly correlated and this situation can have damaging effects on the results of multiple regressions. Multicollinearity was tested by running regression models in Variance Inflation Factor (VIF) and tolerance values were generated. The tests (VIF & Tolerance) indicated that multicollinearity problem among predictor variables did not exist because all the values were below the cut-off value, as per the rule of 10 which advocates for threshold cut off of 10 or ratio of 0.1 (O'Brien, 2017; Scott, 2018; Kutner *et al.*, 2017; Yu, 2019) for variance inflation factor.. The VIF values shown in table 4.12 were less than ten while tolerance was more than 0.05, meaning that there was no multicollinearity. It is a sign that predictor variables were not highly related. Based on these results, the validity of the regression tests in this study was unquestionable.

Table 4. 12 Test for Multicollinearity

	Multicollinearity Statistics	
	Tolerance	**VIF**
Managerial Competence	0.702	1.424
Self-Efficacy	0.625	1.601
Overconfidence	0.779	1.284
Social Network	0.621	1.610
Risk Taking	0.812	1.231

a Dependent Variable: capital structure

Source: (Field data, 2022)

4.11.3 Linearity

Linearity is used to describe correlation between variables, which is represented by a straight line. It is an important element to know the level of relationship among variables in data analysis. Hair *et al.,* (2019) argue that linearity is an assumption of all multivariate techniques based on co-relational measures of association, including regression, multiple regression and factor analysis. To identify any departure that may impact the correlation, it is vital to test the relationship of variables. The table 4.13 below shows Pearson Correlations results that managerial competence was correlated with capital structure ($r = 0.190$, $p<0.05$) positively and significantly. Therefore, managerial competence had a positive relationship with capital structure at 19%. Self-efficacy was second variable which showed positive relationship with capital structure ($r = 0.475$, $p<0.01$). This meant that self-efficacy had positive relationship with capital structure was at 47.5%. Nonetheless, overconfidence showed a negative and insignificant relationship with capital structure as displayed by $r = -0.375$, $p<0.01$, meaning that overconfidence was 37.5% negative association with capital structure. Further social network was noted as being positively associated with capital structure ($r = 0.417$, $p<0.01$). Capital structure and social network had 41.7% significant positive relationship. Owner's risk taking showed a positive correlation with capital

structure at (r = 0.435, p<0.01). Research results conveyed adequate evidence to imply that there was a linear relationship between capital structure with self-efficacy, managerial competence, social network, and owner's risk taking and overconfidence.

Table 4. 13 Correlation Statistics

	Capital structure	Managerial competence	Self - efficacy	Overconfidence	Social network	Owner's Risk Taking
Capital structure	1					
Managerial competence	.190*	1				
Self-efficacy	.475**	.276**	1			
overconfidence	-.375**	-.384**	-.263**	1		
Social network	.417**	.381**	.525**	-0.081	1	
owner's risk taking	.435**	.275**	.304**	-.300**	0.052	1

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

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

Source: (field data, 2022)

4.12 Hypothesis Testing

Hypothesis 1 (H_{o1}) findings revealed that there is significant relationship between capital structure and managerial competence contrary to the fist stand H_{o1} that stated there were no relationship between capital structure and managerial competence. Findings in table 4.14, revealed that managerial competence had coefficients of estimate which was significant basing on β_1= 0.192 (p-value = 0.007 which is less than α = 0.05) which means we reject the null hypothesis stating that there was no significant relationship between managerial competence and capital structure. This hypothesis reveals that for each unit that increases positively effect of managerial competence, capital structure increased by 0.192 units. In addition, managerial

competence on capital structure effect was showed by the t-test value of $= 2.716$ which meant that the error related with parameters is less than the effect of the parameter.

Hypothesis 2 (H_{o2}) findings revealed that self-efficacy had coefficient of estimates which was significant using $\beta_2 = 0.161$ (p-value $= 0.034$ which is less than $\alpha = 0.05$), contrary to the first stand H_{o2} that stated there were no relationship between capital structure and self-efficacy. Therefore, we reject the null hypothesis stating that there is no significant relationship between self-efficacy and capital structure. This means that for each unit that increased in self-efficacy, there is a rise of up to 0.161 unit increase in capital structure. Further, the effect of self-efficacy is indicated by the t-test value of $= 2.14$ which means that the effect of self-efficacy surpasses that of the error.

Hypothesis 3 (H_{o3}) findings in relation to overconfidence and capital structure showed that overconfidence had coefficients of estimates which was insignificant basing $\beta_3 = -0.276$ (p- value $= 0.000$ which is less than $\alpha = 0.05$) similar to the first stand H_{o3} that stated there were no relationship between capital structure and overconfidence. Therefore, implying acceptance of the null hypothesis stating that there is no significant relationship between overconfidence and capital structure. This means that for each unit that increased in overconfidence, there is of up to 0.276 unit decrease in capital structure. Further, the effect of overconfidence is indicated by the t-test value of $=-4.099$ which means that the effect of overconfidence surpasses that of the error.

Hypothesis 4 (H_{o4}) findings in relation to social network and capital structure showed that social network had coefficients of estimates which was significant basing $\beta_4 = 0.367$ (p- value $= 0.000$ which is less than $\alpha = 0.05$) contrary to the first stand H_{o4} that

stated there were no relationship between capital structure and social network. Therefore, we reject the null hypothesis stating that there is no significant relationship between social network and capital structure. This means that for each unit that increased in social network, there is a rise of up to 0.367 unit increase in capital structure. Further, the effect of social network is indicated by the t-test value of =-4.866 which is four times more the effect attributed to the error.

Hypothesis 5 (H_{o5}) findings revealed that owner's risk-taking had coefficient of estimates which was significant using $\beta_5 = 0.337$ (p-value = 0.000 which is less than α = 0.05), contrary to the first stand H_{o5} that stated there were no relationship between capital structure and owner's risk taking. Therefore, we reject the null hypothesis stating that there is no significant relationship between owner's risk taking and capital structure. This means that for each unit that increased in owner's risk taking, there is a rise of up to 0.337 unit increase in capital structure. Further, the effect of owner's risk taking is indicated by the t-test value of = 5.118 which means that the effect of owner's risk taking surpasses that of the error.

Table 4. 14 Coefficient of Estimate

	Unstandardized Coefficients		Standardized Coefficients			Multicollinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	0.711	0.311		2.287	0.024		
Managerial Competence	0.045	0.017	0.192	2.716	0.007	0.702	1.424
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
Owners Risk Taking	0.089	0.017	0.337	5.118	0.000	0.812	1.231

a Dependent Variable: capital structure

Source: (Field data, 2022)

4.13 Model Summary

The table below displays the model summary of multiple regression model, the results shows that all the five independent variables (predictors) (managerial competence, overconfidence, self-efficacy, owner's risk taking and social network) explained by adjusted R squared of 0.424 percent variation of capital structure. This showed that considering the five independent variables, there is probability of predicting capital structure by 42.4% (Adjusted R squared = 0.424). This meant that when SMEs owner's characteristics were enhanced the capital structure decisions improved by 42.4%.

Table 4. 15 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.666a	0.443	0.424	0.19522	1.443

a) Predictors: (Constant), Managerial competence, self-efficacy, overconfidence, social network and Owner's Risk Taking.
b) Dependent Variable: capital structure

Source: (Field data, 2022)

4.14 ANOVA Model

Table 4.16 of ANOVA findings shows that the above discussed coefficient of determination was significant as per the evidence of F ratio of 25.127 with p value $0.000 < 0.05$ (level of significance). Therefore, the model was deemed fit to predict capital structure by taking into account managerial competence, self-efficacy, overconfidence, social network and owner's risk taking.

Table 4. 16 ANOVAL Model

	Sum of Squares	DF	Mean Squares	F	Sig.
Regression	4.788	5	0.958	25.127	.000
Residual	6.021	158	0.038		
Total	10.809	163			

a) Predictors: (Constant), Managerial competence, Self-Efficacy, Overconfidence, Social Network, Owner's Risk-Taking.
b) Dependent Variable: capital structure

Source: (Field data, 2022)

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter covers the summary of the study findings from chapter four, and further presents the conclusion and recommendations of the research based on the objectives of the study.

5.2 Summary

The main purpose of this research was to establish the SMEs owner's characteristics and their effect on capital structure. The target population for the study comprised of SMEs in Eldoret central business district which is located in Uasin Gishu County. The study further made inference on the hypothesis that SMEs owners' managerial competence, SMEs owners' self-efficacy, SMEs owner's overconfidence, SMEs owners' social network and SMEs owners risk taking has no significant effect on capital structure.

5.2.1 SME Owners' Managerial Competence and Capital Structure

The results findings of the study showed that SMEs owners' managerial competence has a positive effect on capital structure basing on $\beta_1 = 0.192$ (p-value = 0.007 which is less than $\alpha = 0.05$). Similar to the study findings of Hisrich and Drnovsek (2018), managerial competence as measured by managerial experience, startup experience, education and knowledge of business positively affect the performance of SMEs. Further, Kiggundu (2019) argues that managerial competencies are basically entrepreneurship attributes which include personality, abilities, knowledge, attitudes, skills, behavior and beliefs which add to success.

Man and Lau (2018) showed that entrepreneurial competency has significant effect on the success of the business. Likewise, Man *et al.,* (2019) argued that entrepreneurial competencies have a significant effect on the business success, particularly, the personality of individuals managing companies is universally regarded as one of the most powerful factors that may have either a positive or negative impact on performance (Zoysa and Herath, 2017).

5.2.2 SME Owner's Self-Efficacy and Capital Structure

SME owner's self-efficacy was observed to affect capital structure positively taking in to account on $\beta2= 0.161$ (p-value = 0.034 which is less than $\alpha = 0.05$). In essence, self-efficacy is a self-asserting belief in spite of the actual skills one possesses; it includes rational and behavioral skill sets regardless of confidence. According to Chen *et al.,* (2018), entrepreneurial self-efficacy is the degree to which people see themselves as being able to succeed and finish the different tasks and roles of entrepreneurship. Markmanet *et al*., (2016), argued that patent inventors were in the fore front in formation of new business opportunities which means it's not wrong to say they had higher levels of self-efficacy. Further, according to Krueger *et al*., (2017), self-efficacy is a good predictor of start-up intentions. Markmanet *et al*., (2016), argued that self-efficacy is a key determinant of new business opportunities for personal success and growth.

5.2.3 SME Owners' Overconfidence and Capital Structure

SME owners' overconfidence was found to affect capital structure negatively by relying on $\beta3= -0.276$ (p-value = 0.000 which is less than $\alpha = 0.05$). Contrary to the study results, Fairchild's (2018) in his theoretical model, he found out a positive relationship between overconfidence and capital structure. The second model of

Fairchild's discovered that managers had the desire to use free cash flow to plough it back to business for new projects that could result in value reducing leading to overconfidence due to reduction on debt. It is noted that an overconfident manager may opt to reduce debt as compared to a rational manager. Hackbarth (2017) stated that overconfidence and optimism both had a positive role because of the balancing effect, for example, managers who are biased tend to increase the level of underinvestment in order to add more debt as compared to rational managers. According to Malmendier *et al.*, (2017), findings, managers who are overconfident uses high level of debt as compared to rational managers. Contradictory to study findings, Ben-David *et al*., (2016) summaries that business firm who has overconfident Chief Finance Officers tend to invest more, pay out less dividends, utilizes debt aggressively, market timing for favorable days, provides managerial forecasts and shifts executive compensation towards impressive performance. On top of that, between the year 2015 and 2016, Barros and Silveira (2017) discovered strong evidence for overconfidence and optimism based on the capital structure decisions of Brazilian non-financial firm that were listed in stock exchange of Sao Paulo. Cognate to study findings, it was found that a negative relationship between the investors' confidence and debt level but had a positive relationship level of borrowing and management confidence (Mefteh and Oliver, 2018). According to Lovallo and Kahneman, (2016) and Hackbarth, (2018) overconfidence can cause unnecessary risks to be incurred by entrepreneurs that may threaten the survival of the business.

5.2.4 SME Owners' Social Networks and Capital Structure

It was further established that SME owners' social network has a positive significant effect on capital structure taking in to account $\beta_4 = 0.367$ (p –value = 0.000 which is less than $\alpha = 0.05$). By all embracing the findings of the study, achieving

entrepreneurship success is achieved through social networks (Hoang and Antoncic 2018). Particularly, business network is noted to be useful for business owners directly. Business network is not limited to business rivals, creditors or suppliers, customers, investors and business partners. Batjargal (2016), argued that social network development is placed on revenue growth of past years and initial network size.

5.2.5 SME Owners Risk Taking and Capital Structure

The study findings also indicated that SME owners risk taking showed a positive significant effect on capital structure relying on $\beta 5 = 0.337$ (p – value = 0.000 which is less than $\alpha = 0.05$). Risk taking characteristics are usually deemed necessary for survival in hostile markets. Therefore, SME owners, who have the courage to risk further, take measures that are more viable and perform better. Mostly, entrepreneurs affect positively their business performance due to possession of higher risk-taking propensity. According to Bridge, O'Neil, Cromie, (2015), majority of entrepreneurs who are successful are moderate risk takers. Entrepreneurs with high strong levels of entrepreneurial intention were found to be having greater risk of acceptance, Douglas and Shepherd (2015). A study by Walker, Geddes and Webster (2016) on risk-taking propensity between male and female respondents found out that there is difference in gender responses were different because female tend to be emotionally risk averse as compared to male counterparts who were more risk-takers. Further, in relating to age, irrespective of gender younger people were more emotionally and financially risk averse in comparison with old people. Similarly, Tamizharasi and Panchanatham (2018) argued that risk taking was significantly related to age and ownership.

5.3 Conclusions

In light of the research findings, SME owners' managerial competence has a positive effect on capital structure. Managerial competences as measured by managerial experience, startup experience, education and knowledge of business affect business performance of SME positively. Additionally, individuals' traits include personality, abilities, knowledge, attitudes, skills, behavior and beliefs which add to success. In relation to SME owners' self-efficacy, findings revealed that there is a positive effect on self-efficacy with capital structure. Self-efficacy gives room SME owners to arrange and implement course of action necessary to obtain required type of results. Moreover, it allows them to supervise and discharge necessary resources, skills and competencies to attain levels of achievement. The study findings on overconfidence have a negative effect on capital structure. SME owners' social network was noted to be having a significant positive effect on capital structure. Social network was found to be of importance in achieving entrepreneurship success, particularly, relationships with business rivals, creditors or suppliers, customers, investors and business partners and important in assembling capital structure for enterprises. Lastly owner's risk taking was found to positively affect capital structure, in particular, the higher the risk-taking characters that are possessed by entrepreneur, the greater the performance of the SME. Even so, successful entrepreneurs take risks in moderation. In terms of age, irrespective of gender younger people were more emotionally and financially risk averse in comparison with old people

5.4 Recommendations

Based on study findings managerial competence should be embraced by SME owners since it positively affects capital structure. SME owners should be willing and ready

to go extra mile to be acquainted with managerial experience, startup experience, education and knowledge of business, for the success of businesses.

Since the study findings fully endorses the argument that, self-efficacy affects positively capital structure. Therefore, SME owners should belief in themselves that they are able to succeed in any kind of business they choose to venture in to. Entrepreneurs should also be self-starters and flexible to cope with any changes in the market conditions.

The study further showed that social network has a significant effect on capital structure. It is noted that there were need for SME owners to build business friends whom they can share good ideas related to how they can improve ways of managing business in order to gain competitive advantage over business rivals. Connection between entrepreneurs with people in authorities at respective county governments and banks is highly recommended to enable entrepreneurs to meet requirements of the government and also to access loans from banks. Close interaction and positive relationship between entrepreneurs and their suppliers is also highly recommended.

Research findings reveal that SME owners' risk taking is a contributory factor in enhancing SME performance. Therefore, SME owners should calculate risks, encourage others to share inherent financial and business risks and carefully analyze the situations before acting in order to enhance the performance of their SMEs. Additionally, SME owners should embrace change and adopt a culture of improvement, innovation and learning in pursuit of excellence.

Additionally, the study recommends that SME owners should consider equipping themselves with multiple robust entrepreneurial characteristics that can enable them secure capital economically for their enterprises. Apart from possessing managerial

competency, self-efficacy, social network and risk-taking the entrepreneurs also need to be flexible and self-starters in order to able to cope with any dynamics in the market conditions in as far as sourcing of capital for the enterprise are concerned.

Furthermore, as regards the theories analyzed in relation to the study namely; human capital theory and leader motive theory, most of the findings between independent variables and capital structure resonated with the prepositions documented by the two theories. The findings of managerial competence, self-efficacy, social networks and risk-taking propensity in relation to capital structure were positive with the exception of overconfidence which depicted contrary results to those illustrated in the theories, its findings demonstrated a negative relationship between overconfidence and capital structure. Hence, the study supports the arguments noted in the theories. Moreover, entrepreneurs are highly encouraged to develop and enhance a combination of entrepreneurial characteristics including managerial competency, self-efficacy, social networks and risk-taking propensity. These competencies will enable them identify proper economical capital structure for their enterprises, this will in turn improve the overall management of their businesses thus leading improvement in profitability and overall performance.

5.5 Recommendation for further Research

The main objective of the study was to establish SMEs owners' characteristics and their impact on capital structure. The study was limited to only SME owners' characteristics within Eldoret CBD. Therefore, further studies and research are encouraged to be carried out to ascertain other factors that can affect capital structure other than the ones carried out in this study, examples can be location of the business, prevailing market conditions and legal requirements. By caring out a research on the

above areas it would enable the researchers and other concern parties to avoid and manage effects of such factors, thus enhancing capital structure of SMEs. Moreover, a replica of the study can be conducted in another county such as Nakuru County so as to augment the findings in this study.

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APPENDICES

Appendix I: Introduction Letter

I am a student at Moi University pursuing a degree of Master of Business Management option. As part of the requirements for the award of the degree, I am required to undertake a thesis. To fulfill this requirement, I am doing a thesis on "Effect of owner's characteristic on capital structure for small and medium enterprises in Eldoret Central Business Unit (CBD)" This will assist SME's owners/managers to establish a viable capital structure which will boost their capital. I humbly request you to spare a few minutes off your schedule to complete the attached questionnaire. Your input by filling this questionnaire is not only critical to the study but also highly appreciated. All the information received will be handled with confidentiality and will only be used for academic purposes.

I take this opportunity to thank you in advance for taking part in this study.

Yours sincerely,

Sheila Jepchumba Toromo,

Reg no. SBE/PGM/024/11.

Appendix II: Questionnaire

SECTION A: Bio Data

Please tick where applicable

1. Age of Business?

    Between 0 – 5 years   [ ]   Between 6 – 10 years   [ ]

    Between 11 – 15 years [ ]   Between 16 – 20 years   [ ]

    Above 20 years [ ]

2. Indicate the number of workers in your organization;

    Between 0 – 20   [ ]

    Between 21 – 40   [ ]

    Between 41 – 60   [ ]

    Between 61 – 80   [ ]

3. Indicate your highest level of education:

    Masters   [ ] Degree   [ ]   Diploma   [ ]

    Secondary Education [ ]   Primary Education   [ ]

4. Indicate the type of your business

5. Computer accessory [ ] Microfinance enterprise [ ] Education institution [ ]

    Spares/Hardware [ ] Security service [ ] Electrical supply [ ] General shop [ ]

    Bookshop []

6. Indicate the ownership type of your

    business…………………………………………..

        Sole proprietor [ ]   Partnership [ ]

SECTION B: Capital Structure

On a scale of 1 to 5 (5 means strongly agree and 1 means strongly disagree) express the extent to which you agree or disagree with the following statements as concerns the way you finance your SME:

5 = Strongly Agree   4 = Agree   3 = Neutral   2 = Disagree   1 =

Strongly Disagree

Capital Structure	5	4	3	2	1
I tend to prefer utilizing short term loans to finance operations of my SME					
I tend to prefer utilizing long term loans to finance operations of my SME					
I tend to prefer utilizing trade credit operations in my SME					
I tend to prefer using donations from family members and friends					

SECTION C: Owners' Managerial Competence

5 = Strongly Agree   4 = Agree 3 = Neutral 2 = Disagree   1 = Strongly Disagree

Owners' managerial competence	5	4	3	2	1
I have academic qualifications in regards to business and management					
I have attended training on business management					
I have been managing my business for many years					
I have been a manager for large firms					
I am able to make commitments very fast in regards to business management					
I like winning and competing over anything					

SECTION D: Owners' Self Efficacy

5 = Strongly Agree   4 = Agree   3 = Neutral   2 = Disagree   1 = Strongly

Disagree

Owners' Self Efficacy	5	4	3	2	1
I am confident that am able to succeed in any business					
I don't believe on becoming a failure					
I am confident that any challenges that face my business I can solve					
I am confident that any business that I start it has to be successful					
I believe I can change my business to any kind of business I desire					
I am a self-driven					

SECTION E: Owners' Overconfidence

5 = Strongly Agree   4 = Agree   3 = Neutral   2 = Disagree   1 = Strongly

Disagree

Owners' Overconfidence	5	4	3	2	1
I believe I can complete new tasks successfully					
I usually achieve the target goals I set for the business					
I succeed in confronting obstacles					
I take on new projects even if the results are uncertain					
I have high achievement needs					

SECTION F: Owners' Social Networks

5 = Strongly Agree   4 = Agree   3 = Neutral   2 = Disagree   1 = Strongly

Disagree

Owners' Social Networks	5	4	3	2	1
I have friends who usually intervene when I am faced with business challenges.					
In National and County government I have connections with "big" people					
I have strong connections with majority of commercial banks in Kenya					
I can easily interact with most influential suppliers					
Am always invited by famous business people for a cup of coffee within my county					

SECTION G: Owners' Risk taking

5 = Strongly Agree 4 = Agree 3 = Neutral   2 = Disagree   1 = Strongly Disagree

Owners' Social Networks	5	4	3	2	1
I have preference for high risk projects					
I calculate risks					
I am good at convincing other business owners to share business risks and inherent risks					
I usually maximize the chances in a given opportunity					
I carefully analyze the situations before acting					
I prefer the tried and tested ventures					
I let other firms lead the way of innovation and assume risks before adopting					

Appendix III: NACOSTI Research License

Appendix IV: Anti Plagiarism

EFFECT OF OWNERS' CHARACTERISTICS ON CAPITAL STRUCTURE FOR SMALL AND MEDIUM ENTERPRISES IN ELDORET TOWN CENTRAL BUSINESS DISTRICT (CBD), KENYA.

by anita anita

Submission date: 01-Oct-2022 06:23AM (UTC-0500)
Submission ID: 1913697144
File name: quiltboat.doc (916K)
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EFFECT OF OWNERS' CHARACTERISTICS ON CAPITAL STRUCTURE FOR SMALL AND MEDIUM ENTERPRISES IN ELDORET TOWN CENTRAL BUSINESS DISTRICT (CBD), KENYA.

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