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Bank Loan Financing Decisions of Small and Medium-Sized Enterprises: The Significance of Owner/Managers' Behaviours

Forbeneh Agha Jude[1,2] & Ntieche Adamou[3,4]

[1] Department of Finance and Accounting, Faculty of Economics and Applied Management, University of Douala, Cameroon

[2] Department of Banking and Finance, School of Management and Business, Saint Jerome Catholics University Institute Douala, Cameroon

[3] Department of Public Economics, Faculty of Economics and Applied Management, University of Douala, Cameroon

[4] Laboratory of Theoretical and Applied Economics, University of Douala, Cameroon

Correspondence: Forbeneh Agha Jude, Faculty of Economics and Applied Management, University of Douala, Cameroon. Tel: 237-698-620-262 or 237-675-605-337. E-mail: agha.jude@yahoo.com

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Abstract

The objective of this study is to highlight the influence of entrepreneurs' behaviour on the decisions to apply for bank loans. A mixed research methodology known as triangulation was employed in order to achieve the objective of the study. Data were sourced from a stratified randomly selected sample of 450 Cameroonian SMEs and analysed using logistic regression. The result of the study revealed that both control aversion and overconfidence behaviours of the owner/managers influence significantly the decisions of SMEs to apply for bank loans. From the result, it is found that behavioural finance theory explains the decisions of SMEs to seek for bank credits. Contrary to the predictions of the pecking order theory, managerial behaviours such as the fear to loss the control of the firm, and overconfidence provide explanations on the decisions of SMEs to seek for bank loans. For instance, the fact that debt does not entail any loss of business control urges SMEs to prefer debt than external equity.

Keywords: bank loans, financing decisions, owner/managers behaviours, and SMEs

1. Introduction

The recent enterprise survey conducted by the national institute of statistic (NIS, 2009) reveals that there are 93, 969 enterprises in Cameroon out of which 99.2% are small and medium-sized enterprises (SMEs). They accounts for 62% of permanent employees and 31% of turnover before tax of all enterprises in Cameroon (NIS, 2009). In an economy, firms may obtain funds directly from the stock exchange or indirectly from financial intermediaries like banks, microfinance and other financial institutions. Most often, securities market regulations constraint small business to seek for finance via the stock exchange (Carpentier, L'her, & Suret, 2008). As a result, SMEs are obliged to rely on the credit market to source the necessary finance for their working capital and investment needs.

For many decades, SMEs have complaint of the enormous obstacles in obtaining bank financing (Beck & Demirguc-Kunt, 2006; Fatoki & Asah, 2011). For the case of Cameroon, the report of Doing Business 2010 shows that enterprises passed from 131st position in 2009 to 135th in 2010 as far as access to credit is concerned (World Bank, 2010). Indeed, Credit constraints have caused SMEs to heavily rely on informal sources of financing, including trade credit and crowd-funding (Omenguele & Mazra, 2012, Kenmegni, 2005, Agostino & Francesco, 2014). Historically, financing schemes such as credit guarantee were designed to enable SMEs access financing. However, these schemes satisfied partially its goal to alleviate SMEs' difficulty in acquiring finance and to stabilize employment (Kang & Heshmati, 2007). Sincerely, the problem of access to credit has always been and remains a major drawback for the growth of SMEs (Beck, Demirguc-Kunt, & Laeven, 2006). According to Mandiefe, Baye, and Tieguhong (2015), credit constraints affect small enterprises more than medium enterprises. In most developing economies an unacceptable and disproportionately high number of SMEs fail during the few years of operations because of the enormous challenges they face to access bank loans (Tsambou, Zamo, Ludwick, & Tsafack, 2015). The emergence of microfinance institutions was thought to squeeze the financing gap experienced by SMEs; however, they have not been able to satisfy their goal. Yet, SMEs still continue to face severe challenges to access financing. The purpose of the creation of microfinance was to offer micro credits to individuals and firms in order to fight against poverty (Nzongang, 2011).

Formerly, the majority of findings relatively to the financing decisions of firms focused on large corporations in Western countries that have access to the capital markets (see Titman & Wesssel, 1988). However, the acknowledgement of the significance of country-specific differences in the financing decisions of firms caused the extension of corporate finance findings to other parts of the world. Additionally, the recognition of enormous disparities that exist between large and small enterprises marked the orientation of most research works towards the framework of SMEs. Absolutely, SMEs behave differently to large firms where financing is concerned (López-Gracia & Sogorb-Mira, 2008). Accordingly, the bulk of theoretical and empirical findings proved that capital structure decision of firm is underpinned by specific-firms' characteristics, the traits of the entrepreneurs, and country-specific factors (Mandiefe et al., 2015; Alenka & Igor 2012; Brana, 2013; Degryse, Goeij, & Kappert, 2012; Mateev & Ivanov, 2011, De Jong, Kabir, & Nguyen, 2008). However, most attention has been placed on firm- specific characteristics as the major determinant of capital structure (Bradley, Jarrell, & Kim, 1984; Titman & Wessel, 1988). For instance, a recent study, based on U.S. firms (Frank & Goyal, 2009) found that firm characteristics explain variation in capital structure. Meanwhile, among firm variables, industry is sought to be the most reliable determinant of leverage (Bradley, Jarrell, & Kim, 1984; Booth, Aivazian, Demirguc-Kunt, & Maksimovic, 2001). Meanwhile, Jõeveer (2013) provides empirical evidence for the importance of both firm- and country- specific factors in determining firm capital structure.

Subsequently, the result of recent findings attest that the characteristics of the owners/managers influence the financing decisions of SMEs (Alenka & Igor, 2012; Kenfack, 2016, Tsambou & Ndokang, 2017; Brana, 2013). For example, certain characteristics related to the owner/managers such as age, gender, educational level, business experience, network and relationship with banks, ethnicity, and religious belief are found to be important determinants of the financing decisions of SMEs (Irwin & Scott, 2006; Kon & Storey, 2003; Cressy & Olofsson, 1997; Huyghebaert, Van de Gucht, & Van Hulle , 2006, Lopez-Gracia & Aybar-Arias, 2000; Degryse, Goeij, & Kappert, 2012, Atieno, 2009; Storey, 1994; Kumar & Francisco, 2005).

Despite, the plethora of empirical works related to the financing of SMEs, we noticed that the significance of owner/managers' behaviours in explaining the financing decisions of SMEs is scarce in the literature. Therefore, the present study bridges the gap by highlighting the influence of the entrepreneurs' behaviours on the decisions to apply for bank loans. It is an attempt to shed light on the extent to which managerial behaviours influence the decisions of SMEs to seek for bank credits. Thus, the objective of the study is to investigate the bank loan financing decisions of SMEs based on the behaviours of the entrepreneurs. Theoretically, we provided proof on the significance of behavioural finance theory in explaining the financing decisions of SMEs.

2. Literature Review

SMEs worldwide are faced with a problem of a universally accepted definition (Storey, 1994). Notably, the concept of small business is diverse and depends on the level of each country's economic development (Chimucheka & Rungani, 2013). In Cameroon, the definition of SMEs varies amongst institutions. However, according to the provisions of the law of finance n° 2010/001 of 13th April 2010 promoting SMEs, all economic entities under the term SME includes all enterprises employing no more than 100 people and whose turnover does not exceed one billion FCFA.

The problem of financing is certainly an old problem which dates back to the 1950s, especially with the work of Modigliani and Miller (1958). Nevertheless, it is still relevant today in both developed and emerging countries. For many decades, the financing of SMEs has been the major preoccupation of researchers and policy-makers worldwide. In a different context, such as that of Africa in general and Cameroon in particular; SMEs meet serious obstacles in obtaining bank financing (Kenfack, 2016). Such a problematic have led in recent years researchers (Ngoa & Niyonsaba, 2013; Wamba, 2013; Feudjo & Tchankam, 2013.) and the Cameroonian government to think of new mechanisms to induce the trust of banks on local firms. In Cameroon the result of Wanda (2007) revealed that banks have excess liquidity, but they are reluctant to grant loans to SMEs. However, the challenges SMEs encounter to access bank credit are sought to stem from demand-side, supply-side and country-specific factors (Owusu et al., 2015; Chimucheka & Rungani, 2013; Tsambou et al., 2015; Nguena, 2014; Wamba, 2013; Ngongang, 2012; Nguena, 2014; Lopez-Gracia & Aybar-Arias, 2000). Basically, the difficulties face by SMEs to access bank loans is caused by serious problem of information asymmetry (Stiglitz & Weiss, 1981). Indeed, banks lack credible information to appropriately appraise the credit worthiness of SMEs.

Nonetheless, the characteristic of the entrepreneurs is found to have profound consequences on running a business (Martins & Staines, 2008) and on financing decisions as well (Vos, Yeh, Carter, & Tagg, 2007). In the case of SMEs the owner's characteristics are hard to separate from those of the business. Moreover, several researchers have shown that entrepreneurs themselves are important factors that influence performance, growth, and financing decisions in small firms (Coleman & Cohn 2000; Vos et al., 2007). It is generally assumed that individuals who have certain business or management ability will influence their success in business (Fatoki & Asah, 2011). According to Irwin and Scott (2006), there are key differences by personal characteristics in terms of the specific barriers faced by SMEs in seeking bank finance. For this reason, entrepreneur related factors take a priority position in all credit assessments by the borrowers. The entrepreneur related factors are educational background, experience and networks. Also, managerial skills are positively related to presenting a plausible case for a loan to a banker at the time of preparing a loan proposal and hence convincing the banker during the client interview (Romano, Tanewski, & Smyrnios. 2001). It implies that, any study that attempts to explain the capital structure decision-making processes has to move beyond the use of publicly available information from databases or annual reports, and focus on managerial characteristics as well. For instance, Zoltan, Randall, Shaver, and Yeung (1997) argued that most of the giant corporations that dominate the landscape of the emerging global economy began as small businesses. According to these authors, the rise of these companies was due to their founders developing radical new skills, knowledge, and information. In the same vein, Abdesamed and Wahab (2014) argue that founders of SMEs who developed social ties with banks applied for bank loans. Therefore, the decisions of SMEs to apply for bank loans depend on the capacity of the owners to enhance their social capital. Basically, characteristics of the entrepreneurs, particularly those stemming from their behaviours are likely to influence capital structure decisions.

2.1 Behavioural Finance Theory and the Financing Decisions of SMEs

Specifically, classical finance theories stipulate that the financing decisions of firms intend to create value for the various stakeholders. In other words, classical finance theories are based on the assumption that investors always act in a manner that maximizes their return. According to these theories, financing decision is guided by rational behaviours. Yet, a number of research show that investors are not always so rational (Chaudhary, 2013). During the 1990s, a new field known as behavioural finance begins to emerge in many academic journals, business publications, and even local newspapers. Behavioural finance explains why individual do not always make the decisions they are expected to make and why markets do not reliably behave as they are expected to behave. Behavioural finance is a relatively new field that seeks to combine behavioural and cognitive psychological theory with conventional economics and finance to provide explanations for why people make irrational financial decisions.

The uniqueness of behavioural finance is its integration and foundation of many different schools of thought and fields. Scholars, theorists, and practitioners of behavioural finance have backgrounds from a wide range of disciplines. The foundation of behavioural finance is an area based on an interdisciplinary approach including scholars from the social sciences and business schools. From the liberal arts perspective, this includes the fields of psychology, sociology, anthropology, economics and behavioural economics. As a result, behavioural finance is the study of psychology and sociology on the behaviour of the financial practitioners and the subsequent effect on the security market. Thus, behavioural finance is the application of scientific research on the psychological, social and emotional contributions to market participants and market price trends. It also studies the psychological and sociological factors that influence the financial decision making process of individual, groups and entities. The behavioural finance says that financing decision making process is not only based on rational analysis always. Rather they are forced to be the prey of different emotional and psychological attitudes which contradicts rational behaviour. Indeed, behavioural finance integrates psychology and economics in finance theory. It is a new paradigm of finance which supplements the modern theories of finance by introducing behavioural aspect to provide explanation for why investors make irrational decision (Babaraju & Apurva, 2014). In other words, it is a relatively recent and high impact paradigm which provides an interesting alternative to classical finance.

History of the behavioural finance goes back to Herbert Simon, the Nobel lieutenant of 1978, for his paper in 1955 “A behavioural model of rational choice’ may be regarded as the first thought that endeavoured to state about a new concept called behavioural finance (Simon, 1955). According to Kannadhassan (2006) in the present scenario, behavioural finance is becoming an integral part of the decision-making process. However, the systematic study of behavioural finance started actually from the work of Kahneman and Amos (1973) where they for the first time discussed about different heuristics affecting investment decisions. Behavioural finance is a new approach to financial markets that has emerged, at least in part, in response to the difficulties faced by the traditional paradigm. In broad terms, it argues that some financial phenomena can be better understood using models in which some agents are not fully rational (Barberis & Thaler, 2003).

Efficient market Hypothesis is one of the most accepted financial market theories. The efficient market hypothesis became one of the most influential concepts of modern economics and a cornerstone of financial economics (Amlan, 2014). Efficient market hypothesis has been the most important theory that explains the behaviour of agents in the financial markets. But it neglects the impact of any human behaviour in investment process. It implies that human psychological factors such as thoughts, feelings, and other cognitive characteristics influence the behaviour, attitude, and functions of the person mind. These psychological factors can effect on human thinking and afterward they also affect his decision-making and relationships in daily life. Psychologist describes individual investor behaviour by keeping focus on person's personality or his characteristics.

Most often, SMEs are family or sole proprietorship business entities. In fact, in such organizational structure, there is tendency to observe an irrational behaviour towards the owner(s). Specifically, irrational behaviours are likely to occur when the entrepreneur is control-averse (Note 1), discourage (Note 2) about bank debt and overconfident (or optimistic) (Note 3). For example, an owner who is control-averse may deliberately refuse to seek for funds from a source susceptible to dilute the control of the business. Generally, bank debt causes damages to a firm in the advent of bankruptcy. In fact, credits from commercial banks induce financial risk, which may urge entrepreneurs to shy away from debt. In some circumstances, the entrepreneurs are likely to lose the assets of the business and to some extent personal properties prior to any bankruptcy. From this perspective, a risk-averse owner/manager may avoid using debt. On the other hand, SMEs may prefer debt to external equity, since it does not entail any loss of business control. From this perspective, the decision of SMEs to apply for bank loan is characterised by the risk of losing the control of the venture. It implies that, the change in attitude towards more openness eventually leads to an actual behaviour where SMEs choose to apply for external finance in the form of bank loan. It implies that, small and medium sized firms are prepared to accept outside control in the business firm in order to grow (Berggren, Olofsson, & Silver, 2000). Following the same vein, Cressy and Olofsson (1997) found that internal and external constraints face by SMEs are caused by the refusal to relinquish some control in order to access equity financing. According to these authors, firms are aware that relinquishing some control would improve performance. However, the returns in growth, profits and survival are not sufficient to offset the utility of control loss. Moreover, who are optimistic about the performance of their businesses may likely apply for bank loan. Overconfidence characterises the trust the entrepreneurs have on the profitability of their business. Indeed, they are highly confident about the capacity of their business to generate substantial cash-flows in order to pay interest on loans and principal at maturity of the debt. In such a circumstance, SMEs readily demand for loans from commercial banks. In fact, an optimistic entrepreneur is willing to pledge the assets of the business in exchange of a loan. Sincerely, the manager is highly convinced of the income generating capacity of the firm.

Furthermore, owner/managers who belief that their applications will be rejected may not apply for bank loans. For instance, discouragement is caused by the fear that the demand for bank loan is going to be rejected. Under a range of assumptions, Kon and Storey (2003) posit that the screening error of banks, the scale of application costs and the extent to which the bank interest rate differs from that charged by the money lenders orchestrate discouragements in an economy. Consequently, 'good borrowers' requiring finance might choose not to apply, because they feel their applications will be rejected by banks. In the same vein, Freel, Carter, Tagg, and Mason (2012) find that twice as many businesses were discouraged from applying for a bank loan than their request being denied in the U.K. On the contrary, Watson, Newby and Mahuka (2009) found no evidence that Australian SME owners (particularly female owners) are being discouraged from applying for loans from a financial institution because they believe their application will be rejected.

2.2 Research Question

Our research question is:

Do the behaviours of the owner/managers influence the decisions of SMEs to apply for bank loans?

2.3 Research Hypothesis and Conceptual Framework of the Research

Following the review of the extent literature, we hypothesised that:

H: The behaviours of owner/managers are likely to influence the decisions of SMEs to apply for bank loans.

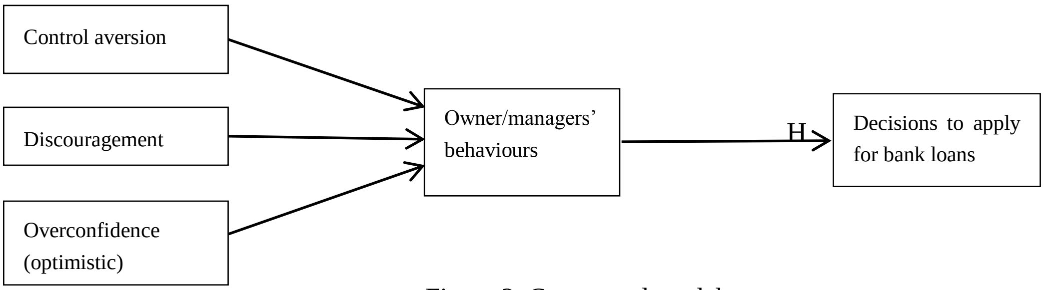

Figure 2. Conceptual model

3. Methodology

3.1 Method

Similar to recent studies (e.g, Abdesamed & Wahab, 2014), we adopted a mixed research methodology known as 'Triangulation' for the study. Triangulation for completeness purpose is mainly used in researching the less explored or unexplored research problem. Indeed, to understand deeply the significance of managerial behaviours on the decisions to seek for bank loans accounts for the use of a mixed research design. Sincerely, the qualitative phase of the research based on semi-structure interviews with 10 owner/managers helped to complete the quantitative analysis. Principally, the information derived from the interviews was exploited in designing the survey questionnaires in order to reach a broad spectrum of SMEs. On the other hand, the model was developed using quantitative method coupled with a hypothetical-deductive testing approach.

3.2 Sampling and Sample

The population of the study involves Cameroonian SMEs operating in various sector of the economy such as service and manufacturing sectors. The main target consists of owner/managers of SMEs. To avoid bias of selection, simple probability sampling technique was used to select the respondents. Firstly, SMEs were stratified based on the number of employees and sector of activities respectively. Secondly, we randomly selected SMEs according to the respective sector and size as shown in Table 1. The fact that a multitude of SMEs operate within the service sector, and besides, most of them are micro enterprises (report of NIS, 2009) accounts for the high representation in the sample.

Table 1. Distribution of sampled SMEs by sector and size

Sector	Micro	Small	Medium	Total
Service	190	120	90	400
Manufacturing	30	70	100	200
Total	220	200	180	600

The sample size was calculated using a Raosoft sample size calculator. In calculating the sample size the researcher used 95 per cent confidence level, response distribution of 50 per cent and the margin error of 5 per cent. The method consists of the choice on the sample such that each population unit has an equal independent chance of being selected and included in the sample. The target population consist of the online list of SMEs published by the Ministry of Small and medium-sized enterprises, economy and handicraft. The sample comprises of 600 SMEs many researchers stipulated that this is optimal size for quantitative surveys (Perry, 1995). The selection of SMEs is based upon the definition of SMEs by the law of finance 2010 as shown in table 2. According to the law of finance, SMEs are categorised in the National file on the basis of the number of permanent job and annual pre-tax turnover.

Table 2. Classification of SMEs in Cameroon by the law of finance April 13th , 2010

Size	Number of workers	Turn over
Micro	1-5	less than 15 million CFA francs
Small	6-20	equal to 15 million, but less 100 million CFA francs
Medium-sized	21-100	equal to 100 million, but less than 1 billion CFA francs
Large	above 100	At least 1 billion

3.3 Data Collection and Analysis

The data for this study were collected from owner/managers of small and medium-sized enterprises in the city of Douala-Cameroon through self-administered questionnaires in a survey. Explicitly, survey questionnaires were administered to the premises of SMEs by the researcher. The city of Douala is the core of Cameroon's economic activities, which harbours the majority of firms (NIS, 2009). The presence of a well-developed sea port and its high population make this site attractive for foreign and local investments. The survey covered a period of 3 months. The respondents were asked to fill the questionnaires either instantly or later. A total of 588 responses were collected from SMEs operating in various economic branches. However, 450 questionnaires were completed correctly. Thus, 450 questionnaires were used for statistical analysis. Similar to Fatoki and Asah (2011) and Abdesamed and Wahab (2014), we employed logistic regression statistical technique to analyse the data of the study. The fact that the decision of SMEs to seek for bank loans is dichotomy accounts for the use of logistic regression model.

3.4 Definition of Variables and Empirical Model of Analysis

3.4.1 Dependent Variable

The dependent variable in the study represents the decisions of the entrepreneurs to apply for bank loans. The decisions of SMEs related to the application of bank loans is underpinned by two possible outcomes (i.e., yes or no). Therefore, it is a categorical variable with dummy values of 1 = yes and 0 otherwise.

3.4.2 Predictor (Independent) Variables

In the study, control aversion, overconfidence (optimistic) and discouragement represent the independent variables. Each is a categorical variable with dummy code of 1 = yes and 0 otherwise. The aim is to investigate whether each of the variables influence the decisions of the owner/owners to seek for bank loans.

3.4.3 Empirical Model

The model of the study was developed using qualitative method coupled with a hypothetical-deductive testing approach. In the study, issues such as the risk to loss the control of the firm, overconfidence and discouragement were used to represent the cognitive attitudes of the owner/manager. In fact, they are proxy for the behaviours of the entrepreneurs. On the other hand, the decision to apply for bank loans with two possible outcomes (yes or no) represents the dependent variable of the study. Accordingly, the relationship between both variables is stated as follows:

$$\text{Logit}\left(\frac{y}{1-y}\right) = \alpha + \beta_1 \text{ Control aversion} + \beta_2 \text{ discouragement} + \beta_3 \text{overconfidence} + \epsilon \qquad (1)$$

Where,

y = 1 (apply for bank loans);

y = 0 (otherwise);

α = constant term;

$\beta_{i=}$ respective coefficients of predictor variables;

ϵ = error term .

4. Result and Discussion

Table 3. Result of logistic regression between the behaviours of the owner/managers and the decision to apply for bank loans

Variable	B	S.E	Wald	d.f.	Sig.	Exp(B)
Control aversion	.079	.206	.147	1	.017	2.924
Discouragement	-.097	.203	.230	1	.632	.907
Overconfidence	.180	.202	.791	1	.025	1.197
Constant	-.389	.149	6.804	1	.009	.678
Number of observation	450					
Cox and Snell R^2	.207					
Nagelkerke R^2	.353					
-2Loglikelihood (Chi-square)	[1.024, d.f. =2	p-value < 0.5]				
Hosmer-Lemeshow test	[5.673, d.f. = 6,	p-value> 0.5]				

Note. B = Ratio; S.E. = Sum of error, d.f. = Degree of freedom, Sig. = Significance; Exp (B) = Odd ratio.

The result of the Table 3 above revealed that the managerial behaviours influence the decisions to seek for bank loans. Therefore, aforementioned hypothesis is supported (see sub-section 2.3). The result shows that both control aversion and overconfidence influence significantly the likelihood of SMEs to apply for bank loans. From the result, SMEs owners/managers who desire business control are 2.924 times more likely to seek for bank loans. Indeed, control aversion increases the likelihood of SMEs to seek for bank credit. Contrary to the prediction of the pecking order theory, SMEs may rely on internal funds not because of information asymmetry costs, but due to the risk perceive by the owner of losing the control of the business.

The owner-manager in SME has the dominant position in the firm in their role as the primary decisions maker (Irwin & Scott, 2010; Casser, 2004). As a result, most owner-manager in SMEs do not prefer to finance firm operations using external finance, particularly as it entails changes in ownership structure whereby such financing may lead to control aversion(Berggren et al., 2000). In the same vein, Noe and Rebello (1996) argue that the locus of control within a firm is an important determinant of choice of finance. In support of Owusu, Nyantakyi and Kyereh (2015), SMEs do not want to relinquish control over to outsiders and they personally want to take control of every aspect of their business. For example, owner/managers who fear that use of external financing might lead to a loss of flexibility and control over decision making to financiers are more likely to limit the amount of debt in their firm's capital structure (Hutchinson, 1995; Berger & Udell, 1998). Indeed, scepticism towards external control firms may prevent SMEs from seeking and obtaining adequate financing for their business operations (Berggren et al., 2000).

Moreover, from the result above, owner/managers who are optimistic about business performance seek for bank credits. According to the result, entrepreneurs who are overconfident of the earnings potential of their activities are 1.197 times more likely to apply for bank loans. Similar to Bhaird and Lucey (2010), SMEs with low turnovers are likely to rely much on personal funds of the owners and funds from family and friends. Additionally, owner/managers might signal the quality of their businesses by seeking for debt (Ross, 1977). For instance, Afza and Hussain (2011) contend that debt is considered as a way to highlight investors' trust in the firm. If a firm seeks for debt, it provides signal to investors that the firm is expecting future earnings. If a firm issues equity instead of debt for financing its new projects, investors will interpret the signal negatively. It implies that, the fact that owners-managers of SMEs decide to apply for bank debt is a proof of the level of overconfidence they have on the profitability of the business. Additionally, the willingness to pledge the assets of the business as collateral to secure loans is a sign concerning the dimension of confidence the managers have on the performance of the firm. For instance, Bebzuck (2003) in his book provided a simple proof that collateral can work as signal and convey information of firm's project quality. In fact, collateral is an asset of the borrower that is automatically transferred to the lender should the project revenues not be sufficient to repay the loan in full. As the collateral reduces the limited responsibility of the borrower in presence of unfavourable result, the borrower who provides collateral will be transmitting a signal concerning the quality of his project, declaring the probability of his project's success to be high. Specifically, collateral stands as a financing cost, which reduces the expected profit for bad quality borrowers and increases it for good quality borrowers (Zhao, Wenxu, & Chen, 2006).

Further, the result reveals that discouragement decreases the likelihood of entrepreneurs to apply for bank loans. However, the effect of discouragement on the bank financing decisions of SMEs is sought to be statistically insignificant. Contrary to Kon and Storey (2003) and Freel et al. (2012), we found that the effect of discouragement on the financing decisions of SMEs is statistically insignificant. It implies that discouragement is irrelevant in explaining the bank loan decisions of SMEs.

5. Conclusion

The objective of the study was to determine the influence of owner/managers' behaviour on the decisions to seek for bank loans. To achieve the objective, a mixed method research design was convoked. The result of the study attests that control aversion and overconfidence attitudes of the owners/managers statistically influence the decisions of SMEs to apply for bank loans. From the result, it is observed that the behaviours of the owner/managers influence the decisions to apply for bank credits.

Theoretically, the decision of SMEs to rely on internal funds is explained as well by the strong desire of the owners(s) to maintain the control of the business, but not only by high costs of information asymmetry and transaction. Thus, the risk of losing the control of the enterprise makes internal funds preferable than external funds. Paradoxically, external financing may be available, but SMEs do not seek for it, because the owner/managers are risk-averse, rather than, the obstacles to access funds. Unlike debt, external equity dilutes the control rights of incumbent owner(s) and exposes the firm to severe external control. From this perspective, debt financing is sought to be the second preference order of the financing choices of SMEs, since it does not entail any loss of control. Moreover, entrepreneurs apply for bank loans whenever they are optimistic about the performance of their activities. Thus, the fact that SMEs demand for bank credit is underpinned by the positive perception the managers have regarding the profitability of the business venture. From the literature, information asymmetry between the borrowers and the lenders is sought to seriously influence the decisions of SMEs to access bank loans (Petersen & Rajan, 1994). As a result, to disclose valuable information to investors, owners/managers of SMEs seek for debt when they acknowledge a positive effect of debt on the value of the firm. Such a financial decision related to optimistic behaviour on the side of the entrepreneur is fundamental to understand the debt seeking decisions of SMEs.

5.1 Recommendations

In the study, control aversion is found to significantly influence the decisions of SMEs to apply for bank loans. Ultimately, the risk of losing the control of the business is paramount in explaining the financing attitudes of SMEs. Absolutely, the owner/managers of SMEs disgust financing sources that may cause either a loss of control or dilute ownership of business. Therefore, it is fundamental to design specific financing instruments that do not orchestrate any loss of business control. In fact, SMEs might simultaneously enjoy a variety of financing instruments and still continue to maintain the control of the firm as well. Moreover, banking institutions should recognise the fact that SMEs seek for bank loans in relation to the perception the managers have concerning the profitability of their activities. The fact that overconfidence is an incentive for managers to seek for bank loans;

demands for banking institutions to revise their lending practices to SMEs. Thus, only SMEs for which the owners/managers are overconfidence about the profitability of the activities will take the risk to apply for bank loans, and hence, pledge the assets of the business as collateral.

5.2 Perspective for Future Research

The present study investigated the influence of the owner/managers' behaviours on the decisions of SMEs to seek for bank loans. However, the study focused exclusively on bank loans. Further research works may extent this study to other sources of financing. Somewhat, SMEs do not rely solely on bank credit and may behave differently towards other sources of financing. Therefore, it is essential for further studies to assess the extent to which the behaviours of entrepreneurs affect the decisions to seek funds from other financing sources.

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Notes

Note 1. The risk of losing the control of the business.

Note 2. The fear that the application will be rejected.

Note 3. Optimistic about business prosperity.

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