AN ASSESSMENT OF IMPACT OF SOCIO- ECONOMIC FACTORS ON SMEs' CAPITAL STRUTURE DECISION IN TANZANIA A CASE OF MOROGORO MUNICIPAL COUNCIL

AN ASSESSMENT OF IMPACT OF SOCIOECOMIC FACTORS ON SMEs' CAPITAL STRUCTURE DECISION

A CASE OF MOROGORO MUNICIPAL COUNCIL

By

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A Dissertation Submitted to School of Business in Partial Fulfillment of the Requirements for the Award of Master Degree of Science in Accounting and Finance (MSc. A&F) of Mzumbe University

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for the acceptance by the Mzumbe University, a dissertation entitled Assessing the impact of socio- economic factors on capital structure decision: A case study of Morogoro Municipality, in partial fulfillment of the requirements of award of the degree of Master of Science in Accounting and Finance (MSc. A&F) of Mzumbe University

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I Oscar Kilangi, declare confidently that this dissertation on " Assessing the impact of socio- economic factors on capital structure decision: A case Study of Morogoro Municipal" is my own original work and this information has not been presented to any other institute of higher learning for similar or any other award. This is my own original work.

Candidate' signature_____

Date_____

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I certainly cannot claim that the end product of this dissertation was the results of my effort.

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DEDICATION

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ACRONYMS AND ABBREVIATIONS

FEDA	Finance and Enterprises Development Agency
FINCA	Foundation for International Community Assistant
ILO	International Labor Organisation
NGO	Non-Government Organisation
NMB	National Micro –finance Bank
ROI	Return on Investment
SIDO	Small Industrial Development Organisation
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Science
URT	United Republic of Tanzania

ABSTRACT

Deciding the suitable capital structure for small and medium size enterprises, SMEs, is vital. Sometimes the decision is affected by socio decision factors that constitute entrepreneur profile and firm and financial attributes. A suitable capital structure helps SMEs to stay alive in the competitive market and has a positive effect on the national economy. The purpose of this thesis was to investigate the impact of the socio economic factors on SMEs' capital structure decisions.

The researcher consulted the relevant theories of capital structure. By the support of the earlier studies, as well as the related theories and developed the testable hypotheses. Tools used in data collection were; questionnaires (open and closed), interview and documentary review. Specific objectives were to: assess the capital structure and capital structure decision of SMEs, examine the factors that affect SMEs' capital structure decision; and assess the impact of the SMEs' capital structure decisions on financial performance using a total of 110 respondents from four wards of Morogoro municipality in Morogoro region.

Data were analysed by using SPSS to ensure accuracy in data presentation and easy interpretation. Findings of this study revealed that there are several impacts of socio economic factors resulting from entrepreneur's profile and SME' characteristics on capital structure decision and financial performance. Thus, SMEs' capital structure decisions and financial performance were affected by the socio economic factors which mostly have impacts on SMEs leverage levels are different in terms of magnitude but little in direction.

The study recommends that SMEs owners/managers should be investment ready by providing collaterals, the government could support the education and training and SMEs should attend seminars and training programmes to improve on their managerial competence and skills of entrepreneurship. In addition to that, the government should also establish a mechanism that will help SMEs to get debt finance even if they do not have collateral to improve and reach optimal capital structure decision and highly financial performance.

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CHAPTER ONE

INTRODUCTION

1.1Background of the study

Small and medium enterprises (SMEs) are increasingly becoming economic actors both in developed and developing countries. They have become the main agents of change in many developed and developing countries as a result of dynamism in their simple and flexible structures and the driving forces of the entrepreneurs themselves (Iguisi, 2002). Small and medium enterprises (SMEs) have created jobs in the world and SMEs development process continues to be in the forefront of policy debates in both developing as well as developed countries in creating jobs and competitiveness (Davis & Schuh, 2006). For example in Europe, SME represents about 99.8% of all enterprises in 2003, in which these SMEs employs about two third of the workforce in Europe and generate more than a half (57.3%) of its value added. (Schmiemann, 2006)

In the African context, SMEs have had their own unique importance in the economy. For example, SME sector accounts for almost 90% of all the enterprises, in which they are located in both the rural and urban areas, whereby they provide more equitable distribution of income in all areas of the countries. This means that the SMEs are the main source of providing employment to the people. They stimulate the development of the countries by promoting the entrepreneurship and the business skills amongst communities and strengthening the local production sector as well as the industrial base. Therefore, the SMEs in Africa have been considered to be a very important engine for obtaining national development goals, such as poverty alleviation and economic growth (Mokaddem, 2006). For example, in South Africa, the SMEs account for about 46% of the total economic activities and 84% of private employment. It is also estimated that about 80% of the formal business sector and 95% of the total business sector are considered to be the SMEs (International Institute for Sustainable Development, Canada, 2004)

Despite the significance of SMEs to contribute to the economic growth across the global as above stipulation, SMEs across the whole world are still faced with numerous challenges that inhibit entrepreneurial growth. The capital structure decision problem is one of the challenges that affect entrepreneurial' sustainability and growth which may be influenced by social economic factors: Location of SMEs, collaterals, age of the SMEs, profitability or growth in earning, interest rate charged by lenders and owners' profiles such as gender, education level, managerial competency, and age(Upneja & Dalbor 2009).

According Al-Najjar and Hussainey (2011) SMEs face problems in acquiring capital to finance their investments; therefore capital structure decision for SMEs may be influenced by social economic factors. Sorooshian, Norzima, Yusuf and Rosnah (2010) point out that the factors that can impact on the capital structure and performance of SMEs include firm characteristics and entrepreneurial characteristics. Firm characteristics include factors such as the age of the firm, the size of the firm and the availability of collateral and business information. Entrepreneurial characteristics are those traits or attributes that are specific to the owner of the firm which can impact on the performance of the firm negatively or positively. Entrepreneurial characteristics include the managerial competency of the owner of the firm, networking and gender. Required capital structure for SMEs is an issue because access of formal finance is poor due to high risk of default among SMEs and due to inadequate financial facilities that are influenced by managerial entrepreneur skills, family upbringing, collateral, firm size and age, business information, and gender(Kauffmann, 2004).

Pretorius and Shaw (2004) observed that accessibility to external finance is essential to solve shortage of SMEs cash flows. Financing is required for SMEs' to set up and enlarge their business operations, new product development, research and development, human resource development and acquiring of up-to-date production equipment and technology. Most of SMEs rely on internal finance since they can't afford external finance easily only prioritised sources become internal finance but still internal finance is inadequate for SMEs' development and profitability. Most

SMEs fail to improve their capital structure decision due to an inadequate capital structure.

Demirquc-Kunt et al. (2006) pointed out that the main source of external financing for SMEs is equity and debt. Shane (2008) observed that external equity from stock exchange (capital markets) usually never exists for SMEs. Majed et al. (2010) and Sorooshian et al. (2010) evidenced that SME characteristics have an impact on capital structure and performance of SMEs. These include SMEs' attributes such as firm's location, firm industry, firm size, firm age, firm's legal status and the availability of collateral and business information. Al-Najjar and Hussainey (2011) emphasise that it is still unclear on how social-economic factors can drive capital structure decisions particularly by small and medium enterprises (SMEs).

Therefore, the major concern of this study was to assess the impact of socio economic factors on SMEs' capital structure decisions, that is how they can affect the SMEs' capital structure decisions as well as to what extent the decisions have impact to financial performance of small and medium enterprises in Tanzania. This study came out with the proposed strategies for improvements in the area of government, financial institutions, entrepreneurs themselves as well as identifying some of the gaps in our knowledge related to finance in small enterprise development.

1.2 Statement of the Problem

The Tanzania SMEs Development Policy (2005) identified various factors that limit SMEs from accessing financial services that can improve capital structure decision. They identified factors that include: the sector being perceived as a high risk one; inability of the SMEs owners to fulfill the collateral requirements; most banks do not operate an SMEs financial window; some of banks do not operate in limited geographical areas; lack of a guarantee scheme to back up banks financing SMEs; high cost of screening and administering small loans spread over big areas and inabilities of barrowers to prepare and present applications that meet bank' requirements. Therefore, finance gap still exists between the supply capabilities of financing sources and the demanding needs for capital to SMEs that makes difficult

for them to improve and to target required capital structure. The finance gap existing in the Tanzanian SME sector distorts SMEs' productivity, performance and contributions to the country's economy (Moshi, 2010).

In solving these problems, there are various initiatives by Tanzania government and financial institutions to sponsor SMEs credit scheme to improve their SMEs' capital structure. Majority of SMEs especially located in the backward areas are still facing difficulties to improve their capital for new projects as well as expading and receive very low credit support from banks and other financial institutions. It has also allowed development partners such as NGOs to operate in the country by providing training and issuing credit to SMEs (Moshi, 2010).

In spite of these efforts, the SMEs sectors are still facing a major constraint in improving their capital structure. This limits their capacity to survive, increase capacity, upgrade its technologies and even in many cases, expand their markets and improve management or raise productivity and eventually increase financial performance (URT, 2008).

On the other hand, SMEs are characterised by personal ownership and management, have few specialist management staff and are not part of large business enterprises. They are both in the formal and inform sector. It also has been pronounced in various writing including SMEs policy (2006) that access to finance is a challenge to improve many SMEs' capital structure but little has been said what are factors that influence and to what extent they affect their financial performance. Again no one has said that SMEs capital structure problem can be influenced by socio economic factors.

SMEs capital structure decision is influenced by firm and entrepreneurial characteristics and supported by financial institutions as suggested in other studies abroad, now why Tanzania's SMEs are not growing? and socio economic factors stipulated do they affect current Tanzania's SMEs capital structure decisions? This study tried to fill both theoretical and empirical gaps on what actually makes SME's leverage level in Tanzania not to be optimal that leads to required financial performance.

1.3 The research questions of the study

Research questions are issues that researcher seeks to answer. These research questions guide the research process by addressing the variables to the study.

1.3.1 General research question of the study

What are impacts of socio-economic factors on SMEs' capital structure decision in Tanzania?

1.3.2 Specific research questions

i) What are capital structure and capital structure decisions of SMEs in Tanzania?
ii) In what ways do socio-economic factors affect SMEs' capital structure and capital structure decision in Tanzania?
iii) To what extent capital structure decisions have impact on SMEs' financial performance?

1.4 The Objectives of the study

1.4.1 General objective of the study

Assessing the impact of socio-economic factors on SMEs' capital structure decision in Tanzania

1.4.2 Specific objectives

i) To assess the capital structure and capital structure decision of SMEs in Tanzania.
ii) To examine the socio-economic factors that affect SMEs' capital structure decision.
iii) To assess the impact of the SMEs' capital structure decisions on financial performance.

1.5 Scope of the study

Basically the study espoused a national outlook approach although conducted in Morogoro region and focused in the following areas:

- Content wise, the covered areas were on capital structure decision, small and medium business enterprises SMEs and socio-economic factors.
- Geographically, the covered areas were only in Morogoro municipality in Morogoro region.
- The participants in this study were SMEs owners and managers, and micro-financial institutions including NMB, FINCA, and PRIDE.

The study also was carried out in four wards in Morogoro municipality, namely Boma road, Kingo, Kihonda and Sabasaba. The study focused on these wards because the largest number of small and medium enterprises, micro- financial institutions NMB banks, and FINCA are found in these wards in Morogoro municipality.

1.6 Significance of the study

The findings of the study are significant in following ways:

i. The recommendations and suggestions will be useful for other researchers to further understand the problem profile and look at various ways of improving SMEs' capital structure decision in Tanzania.
ii. The study will also be useful by business owners to solve some problems related to capital restructuring decision.
iii. The report will contribute to bridge the knowledge gap on issues of small and medium enterprises and use of financial leverage as concept of capital structure.
iv. The report will contribute viable information for the government especially those policies setters regarding SMEs' capital structure decision in Tanzania. Thus, it can be useful in enhancing policy reforms in Tanzania.

Generally, the study provided an insight of required capital structure for success of small and medium enterprises in Tanzania. Tanzania government plays a catalytic

role of boosting SMEs. Through the study it is expected that the Government through its organs can review SMEs' tax policies and regulations as well as create conducive environments to ensure effective performance. Normal SMEs use two sources of finance; internal or external sources of financing. The internal funds are always insufficient to undertake the required capital structure at the level of business hence the call is always made for external finance which depends on socioeconomic to fill the financial gap(required capital structure).

Over the decades the failures of SMEs have been linked to the inability to access finance that leads to poor capital structure decision because of socioeconomic factors that affect SMEs. This study is therefore, important in providing empirical evidence about the required SMEs' capital structure decision on success of small and medium enterprises. Therefore, without such evidence no concrete strategies can be drawn regarding the financial performance and development of SMEs.

1.7 Organisation of the Dissertation Study

The report of the study has been organised in six chapters. The first chapter constitutes background of the study, statement of the problem, research questions, objectives and significance of the study. Chapter two explores the relevant literature, theoretical perspectives and evidence from practices regarding capital structure in SMEs. The research methodology and procedures are discussed in chapter three. Chapter four analyses and presents research findings; Chapter five presents the discussion of the findings while chapter six presents the conclusions, recommendations and suggested areas for future study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with what other authors have provided concerning the related concepts on the researchable problem. It includes the theoretical literature review, empirical review and conceptual framework. Therefore, the chapter describes the theories, concepts in capital structure decision in relation to small and medium enterprises (SMEs), and from these theories the researcher developed a frame of reference for data collection and analysis of impact of socio-economic factors on SMEs' capital structure in Tanzania.

2.2 Definition of terms

2.2.1 The concept of capital structure

According to Brigham and Enrhard (2008), capital structure is referred to as the ratio of different kinds of securities raised by a firm as long-term finance. Its decisions are taken regarding different forms of financing and proportions in the total capitalisation of a firm. It involves decisions that can be categorised into two; types of securities to be issued are equity shares, preference shares and long-term borrowing (debentures) and secondly relative ratio of securities which can be determined by capital gearing. Thus, highly geared firms are those firms whose proportion of equity capitalisation is small, otherwise equity capital dominates total capitalization when firm has lower geared capital (Peston and Robert, 2009).

Brealey Myers and Allen (2008) describe capital structure decision essentially involves deciding on the proportion of different sources of funds which should be deployed. The twin objectives which a prudent financial manager try to develop an optimum capital structure which aim to achieve a minimisation of overall cost of capital and maximisation of firm value. The use of debt finance is considered cost effective due to tax advantage. However, financial leverage has to be increased carefully since an increase in debt leads to a simultaneous increase in risk. An

increase in financial leverage beyond a point can make the firm vulnerable if not supported by a proportionate increase in earnings.

Deciding about the proportion of capital structure is one of the major concerns for company's director, since it is a tradeoff between risks and costs (Ross et al., 2008). Issuing equity is expensive compared to the debt which is less expensive; however, debt generates higher risk than equity. Therefore, the principal issue in capital structure composition is to find the best proportion between debt and equity (Modigliani & Miller, 1958).

The best combination of equity and debt is the one that minimises the cost of capital, and in return maximises the value of the firms as said above paragraph. This combination of debt and equity is called optimal capital structure. According to Modigliani and Miller (1963), enhancement in leverage would generate the interest tax shield, which increases the value for the company. However, an increase in debt level will increase the financial distress cost, and the result is a decrease in the value of the company. According to Bradley, Jarrell and Kim (1984), the optimal capital structure is the level of leverage, which gives the best balance between the tax benefit and distress cost.

Therefore, a finance manager of any firm has to strike a balance between debt and equity finance to achieve the two objectives mentioned above, these are minimisation overall cost of capital and maximisation of firm value.

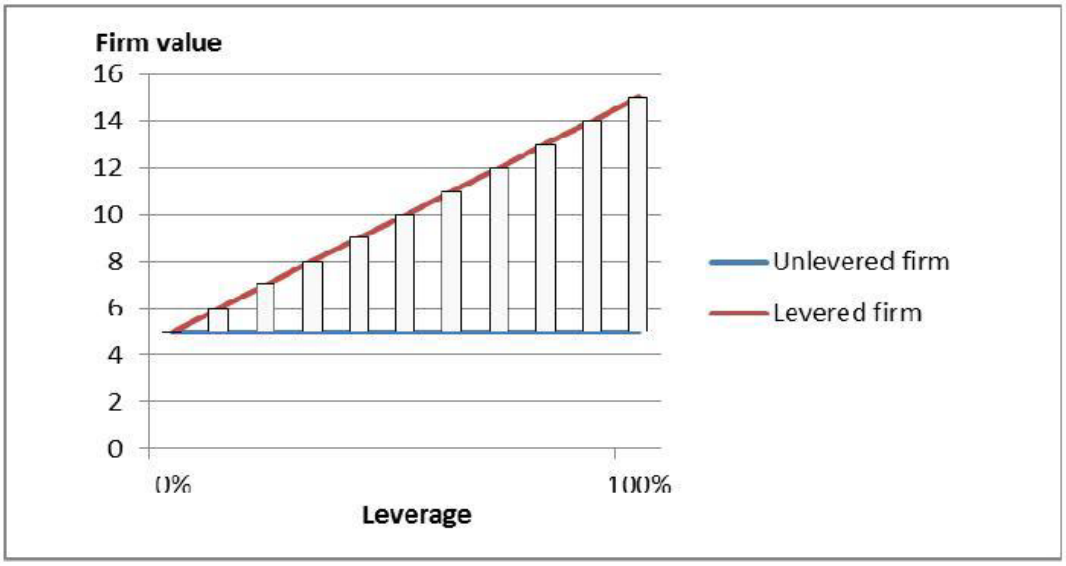
2.2.1.1 The importance of capital structure decisions to organisation

According to Peston and Robert (2009), targeting capital structure is important and needed by the firm for maximisation of shareholders' wealth. Therefore, creation of firm' value is considered to be the driving force behind finance manager. Thus, more appropriate goal of an entity would be to create and increase wealth of its shareholders by increasing the value of their investment. In addition to that, by maximising a shareholder's wealth, an entity is also able to maximise its consumption utility in given time. Therefore, wealth maximisation goal which depends on capital structure decisions is considered to be the most important goal of a firm. Cost of capital is the optimal minimum rate used for discounting cash flows

to determine the present value of future cash flows and finally for deciding whether the project is worth taking up or not. In other words, it is the cost of funds being used by the firm, thus the return which firm is required to pay for various sources of finance. An entity has to pay interest to the lenders of loans and securities as well as dividend to both equity and preference shareholders (Brealey, Myers & Marcus 2005).The retained earnings which are ploughed back for business expansion also has a cost which is opportunity cost for foregone shareholders.

Hence, the relationship between capital structure decisions and firm value has been extensively investigated in the past few decades. Modigliani and Miller (1958) suggested that, in a world without friction, there is no difference between debt and equity financing as regards the value of the firms. Thus, financing decisions add no value and are therefore of no concern to the managers (Damodaran, 2001). But, evidence would suggest that this does not hold in reality. However, today, capital structure is one of the important financial decisions for any business organisation. This decision is important because the organisation needs to maximise return to various organisation' and also have an effect on the value of the firm.

Figure 2.1 Firm values in related to leverage level



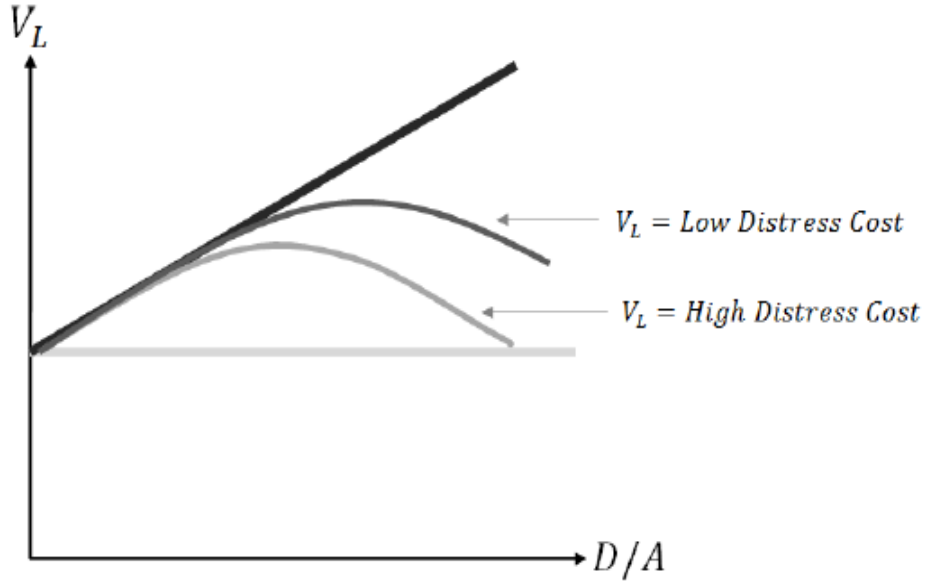
Source: Modigliani-Miller theorem (MM theory)

2.2.1.2 The impact of capital structure in organisation

The capital structure is described as the mix of debt and equity that a firm uses to finance its operations (Brealey el at., 2008). Initially capital structure originated from the Modigliani-Miller theorem (MM theory), the study argued that the value of the firm is irrelevant in financing decisions in a perfect market (Modigliani & Miller, 1958, 1963). The theory lacks applicability in the real world since the firm's value is relevant in financing decisions because of agency costs, bankruptcy costs, information asymmetry and tax components that impact firm's capital structure. The benefit to employ debt in a firm's capital structure exists as the interest on debt is tax-deductible, thus creating tax savings for the borrower (Modigliani & Miller, 1963).

Therefore, it is possible to reduce firm's costs of capital and maximise shareholders' wealth by employing debt. Tax saving makes debt finance cheaper than equity finance whenever employed in a firm's capital structure. The combination of inexpensive debt with relatively expensive capital equity decreases a firm's cost of capital, which is the hurdle rate for investment acceptance or rejection decisions. For a project to be pursued it must be viable to generate enough cash flows to cover the initial cost of that investment. MM theory stipulated that a firm should have 100% debt in its capital structure in order for a firm to enjoy the tax shield benefit (Miller &Modigliani, 1963).Kraus and Litzenberger (1973) point out that theoretically 100% tax shield does not exist because of the existence of financial distress costs (Figure 2.2). The utilization of debt financing by a firm has a cost attached to a firm thereby to settle legal obligation including interest and principal. Failure to meet these legal obligations leads a firm to encounter liquidation and suffer the related settlement expenses.

Figure 2.2: An amplification of the firm value line



Source: Hillier et al. 2010

Jensen and Mecling (1976) pioneered the concept of agency theory which explains the conflicts between the shareholders, managers and lenders collectively known as principal – agent problems. The conflict between stockholders and management arise when managers are not performing to attain the shareholders' value maximisation goal, literally shareholders incur costs to monitor managers and influence their action in which managers have to make viable decisions for the prosperity of the firm. In contrast, lenders are united with the shareholders in requesting firm's performance, but when firm faces difficulties this unity of the purpose can collapse. The common goal of the union between lenders and shareholders is to take several necessary measures to rescue the firm. These conflicts will never exist if all stakeholders have the same information which is rarely to exist in finance. The presence of information asymmetries could lead managers, shareholders and lenders to have different information about the value of a firm and it might take several years before all information is revealed to impact their decisions.

Stiglitz and Weiss (1981) stipulated that presence of agency problems such as asymmetric information and moral hazards can impact the access to finance and thereby capital structure of SMEs. The pecking order theory states that the presence

of asymmetries of information among the stakeholders; most firms utilize in optimal internal sources available to finance their investments before opting to use debt and equity (Donaldson, 1961; Myers & Majluf, 1984; Myers, 1984). SMEs face challenges in making decision on financing choices because of adverse selection problems which hinder their access to credit and it is expensive to solve the problem. SMEs' costs to finance their investment opportunities by issuing stock (stock market) are higher than debt financing. SMEs owners or managers may decide to finance their investment by using either internal or external sources; when external source is priority the least risk should be selected.

Research by Berry et al. (2002), documents the reliance of SMEs on bank debt as a source of financing. However, majority of SMEs depend on internal finance (contribution from the owners, family and friends) and often it adequately for SMEs to survive and grow. Therefore, capital structure for SMEs is the same that applies to any organisation, what makes the difference is the sources of finance especially in equity financing as indicated in this paragraph. Again decision helps the firm's ability to deal with its competitive environment. Furthermore, the capital structure is used by a firm to enhance its operation.

2.2.2 The concept of Socio-economic factors for SMEs

Social–economic factor simply means the use of economics in the study of society or it can be defined as an economic and sociological combined total measure of a person's experience and of individual's or family's economic and social position in relation to others based on income, education and occupation, capital etc.(Shapiro, 2002).According to Ma et al.(2002), the entrepreneurs' socio-economic characteristics are often cited to be among the most influential factors related to SMEs' performance and its competitive. Sorooshian et al. (2010) pointed out that the factors that can impact on the capital structure and financial performance of SMEs include firm characteristics and entrepreneurial characteristics. Firm characteristics are features specific to the firm which can affect positively or negatively the performance of the firm. Firm characteristics include factors such as the age of the firm, the size of the firm and the availability of collateral (tangibility) and business information.

2.2.2.1 How Socio-economic factors affect SMEs' capital structure decision

Entrepreneurial characteristics are those attributes that are specific to the owner of the firm which can impact on the capital structure decisions of the firm negatively or positively. Entrepreneurial characteristics include the managerial competency of the owner of the firm, networking and gender. The socio economic factors are classified into two groups because most of SMEs financial decisions across the global are influenced by the owners/managers' attributes and SME's features. Therefore, social–economic factor will be measured by following components as independent variables.

Lack of Entrepreneurial and Business Management Skills

Lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on SMEs. The lack of support services or their relatively higher unit cost can hamper SME efforts to improve their management because consulting firms often are not equipped with appropriate cost effective management solutions for SMEs. Furthermore, absence of information and/or time to take advantage of existing services results in weak demand for them. Despite the numerous institutions providing training and advisory services, there is still a skills gap among the SME sector as a whole. According to Daniels & Ngwira (1993), about 88% of Malawian SMEs desired training in various skills but as of 1992, less than 6% have actually received it. In Ghana, a lot has actually been achieved in this regard, though there is still room for improvement

Education of entrepreneur and employees

Small and medium enterprises (SMEs) face many responsibilities especially as their operations get larger. For example, owners not only have to make more decisions on major matters, but also have to become knowledgeable in many different areas. A successful business often has accountants, finance expertise, salespersons and personnel managers (Eugence Bigham and Michael Ehrhard,2008).Low education background of employees will affect SMEs in the sense that, they fail to understand the importance of optimal capital structure which leads to poor decisions. In addition,

Small and Medium Enterprises (SMEs) need to be concerned with employee relations. If the workers are not content, sales will suffer. For example, in many retail stores employees are not allowed talk and socialize on the job, even though research reveals that if employees feel isolated or alone, their positive attitude toward the job will decline (Glen, 2005).

Age of entrepreneur

Age of entrepreneur is considered to be one of the factors that influence performance of SMEs which is also affected by capital structure. Minniti et al. (2005) reported that age was strongly and positively correlated with work experiences, fostering the development of entrepreneurial skills until diminishing effort associated with old age sets in. For example, the in USA, the optimal age for starting a business is between 22 and 45 years (Rwigema & Venter, 2004). Starting too early and late may mean limited abilities, with period before 22 years given to training, education and work experience and lack of energy and resilience of youth that business needs (Ucbasaran et al., 2004).

Ethnic group to enterprises

Ethnic origin of a person is said to influence the choice between paid employment and self-employment as well as performance in self-employment.(Olomi,1999).A number of studies(Richard et al., 2004;Kilduff et al.,2000) noted that ethnic diversity in top management of organisation were found to be associated with performance of the firms.

2.2.2.2 The concept of Gender

Gender refers to the wide set of characteristics that are seen to distinguish between male and female entities, extending from one's biological sex (Coleman, 2000).While the social science analyse gender as a social construct, the natural science links biological and behaavioural differences in males and females as determining factors for gender(here meaning "the state of being male or female")in humans and other species(Coleman, 2000).Some scholars reject the framework of biological versus social determinism and advocate a deeper analysis of how interactions between the biological being and the social environment influence

individual's capacities(Dover,2004).The concept of gender constitutes network, Courage and risk.

2.2.3The concept of Small and Medium Enterprises

What is entrepreneur?

An entrepreneur is an individual who establishes and manages a business for the principal purposes of profits and growth (Carland et al., 1984).However, this definition has been criticized by different authors including Gartner (1989) who argues that the definition does not differentiate traits of an entrepreneur from those of a manager. Herbert and Link (1998) defines an entrepreneur as a person who has the comparative advantages in decision making either because he/she has better information on different perceptions of events or opportunities. They also argue that entrepreneurial actions are performed in all societies by individuals whose judgment differs from the norm. On the other hand, entrepreneurs are people undertaking economic risks to create a new organisation that will apply new technology or innovative process to generate value to others (Schramm, 2006).

What is entrepreneurship?

According to Ronstadt (1988), entrepreneurship is a dynamic process of creating incremental wealth. The wealth is created by individuals who assume that commitment provide value for some products or services. The products or services may or may not be new or unique but value must be infused by the entrepreneur by receiving and allocating the necessary skills and resources. The most essential part of the definition is how it defines incremental wealth of value as a result or goal of the process. This result is also parallel to the need for achievement. Entrepreneurship is a dynamic process created and managed by an individual, who strives to exploit economic innovations to create new value in the market (Bygrave & Hofer, 1999).

Small and Medium Enterprises

Small and medium enterprises (SMEs) have no universal definition and different countries use various measures of sizes depending on their level of development. Even in Tanzania context, the definition may differ from one sector to another, such

as industrial, agricultural and commercial sector. The commonly issues used in defining the term include total number of employees, total value of investment and sales turnover(URT,2005).The Tanzania SMEs policy has given a general definition of SMEs according to four categories shown in table below

Table 2.1 Categories of SMEs in Tanzania

	Categories	**Employee**	**Investment**
1.	Micro enterprises	1-4	Up 5 million
2.	Small enterprises	5-49	Above5 to 200million
3	Medium enterprises	50-99	Above 200to 800m
4	Large enterprises	100+	Above 800milion

Source: URT (2005) Small and Medium Development Policy.

Thus, Micro enterprises are defined as those enterprises which employ between one to four people and at the same time having capital investment of up to Tshs 5 million. Small enterprises are defined as all enterprises that employ between 5 and 49 people and at same time having capital investment of between Tshs 5million and Tshs 200million. In addition that, Medium enterprises are enterprises which have employees ranging from 50 to 99 and at same time having capital investment of between Tshs 200 million to Tshs 800million.Large enterprises are those enterprises which have more than 100 employees and capital investment of more than 800 million Tanzania shillings.

Ganbold (2008) maintains that the term SMEs cover a wide range of definitions and measures which vary from country to country and between the sources of reporting. He added that there is no universally agreed definition of SMEs. However, there are commonly used criteria, namely number of employees, value of assets, value of sales and size of capital. On the other hand, Elia (2005) described SMEs as very heterogeneous group of business usually operating in the service, trade agriculture and manufacturing sectors. They include a wide variety of firms such as village handicraft maker, small machine shop that possesses a wide range of skills.

For the purpose of this study the definition given by the SMEs policy of 2005 and others will be modified to suit activities of small and medium enterprises in Morogoro municipality as case study. But generally, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalised undertakings engaging between 5 and 49 employees or with capital investment fromTshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million as illustrated in above table.

2.2.3.1 How capital structure relates with SMEs

A decision to start a business or expand an existing firm by increasing the productive assets, involves an implicit decision to raise money capital in order to finance the growth. There are three main sources of funds, namely equity financing, debt financing, and the use of retained earnings. The first two sources, equity and debt financing constitute external financing, while retained earnings are an internal source (Koutsoyiannis, 1982). Brealey and Myers (2003) contend that, the choice of capital structure is fundamentally a marketing problem. They state that, the firm can issue dozens of distinct securities in countless combinations but it attempts to find the particular combination that maximises market value.

The theoretical literature for explaining the capital structure of large firms also applies in the case of SMEs. This was postulated by Myers (1977) who determined the capital structure of SMEs. The pecking order theory was used to explain why firms will choose a particular capital structure than the other. The pecking order theory stipulates that SMEs average debt ratio will vary from industry to industry because these industries have varied asset risks, asset type and the requirements for external capital (Myers 1984).

2.2.3.2 The factors affecting Small and Medium Enterprises performance

It is generally recognised that SMEs face unique constraints, which affect their growth and profitability and hence diminish their ability to contribute effectively to sustainable development.

Accessibility to source of Finance

The lack of sources to finance was identified as one of the most severe constraints by small and medium size enterprises in Tanzania. It was ranked the highest constraint by most established local and foreign entrepreneurs. It inhibited their capacity to expand technologically and upgrade their business (Rugumamu, 1997). Undoubtedly, this constraint signaled the presence of critical bottlenecks in Tanzania's formal financial system and these financial institutions are considered were not entrepreneur new friendly since they tended to discriminate against the private sector. Private entrepreneurs in Tanzania resorted to financing their operations from their own savings, support from members, short term credit provided by supplies, advances offered by buyers or loans from informal community-based financial intermediaries which are not enough (Hyuha et al., 1990).

Similar studies in this area have shown that private entrepreneurs in Tanzania during the 1970s and 1980s generated most of their investible capital sector from outside the formal banking sector. For those who continued to apply for loans from the formal financial institutions it was always a nightmare. Loan applicants were required to provide fixed property as collateral and the loan applied had to be at least equal to the value of declared assets. Also, Rajab (1996) revealed that SME sector usually does not have credit history. This criterion poses an insurmountable barrier to all small enterprises to acquire loan from banks and financial institutions.

Other factors

Other factors that affect Small and Medium Enterprises performance include: technological change, markets information, environmental favourable, tax policies and regulations, and marketing services. Briefly, foreign SMEs still remain in the

forefront in accessing the new technologies and many small business enterprises appear to be unfamiliar with new technologies (Mbamba, 1999)

For the case of Policies and Regulation of Tax, there is uneven enforcement of tax laws resulting from *ad hoc* exemptions for some businesses and general lack of transparency. Well established SME, face unfair competition from tax evaders including informal operators (World Bank, 2002), also large businesses pay income taxes on their profit. However, small businesses have to pay taxes whether they make profit or loss. This is the case since for SMEs taxes are set on the basis of type of activity and approximate size rather than income. This may limit their capacity to grow. There are numerous taxes and levies, for example there are twenty seven different taxes and levies that apply to various businesses and one has to know which apply to their particular enterprise.

This is just too cumbersome especially for a small business. The tax assessment and collection system is non transparent and unpredictable, giving opportunities for tax officials to exhort bribes from small business operators (Finseth, 1998).

Marketing is critical to success of enterprises; the inability to develop markets outside their immediate locality and to compete is one of the most serious impediments to the performance of SMEs. Lack of market opportunities is a key constraint for SMEs in expanding employment and improving the quality of the job (ILO, 2001). Access to markets for SMEs operator is a serious problem particularly in SMEs areas where seasonal products food the market during harvesting time. Most operators rely on local (neighbourhood) market that often the provision of marketing services (marketing research, marketing intermediation, facilitation of sub-contracting arrangements) to the sector is still quite limited. Since a few private SMEs and NGOs such as finance and enterprises development agency (FEDA), Private sector initiatives (PSI) and Techno serve provide marketing research services. They carry out market studies in Tanzania as well as abroad for SMEs or their associations. These services however reach a very tiny proportion of SMEs.

There are also a few marketing agencies such as the Board of External Trade (BET), Tanzania Chambers of Commerce Industries and Agriculture (TCCIA), and Tanzania Gatsby Trust (TGT).They organise local and international fairs as well as sponsoring SMEs to participate in areas where there are very few service providers active in this field and their outreach is also quite small relative to the need for their services.

2.3 Theories of Capital Structure

The study supported and guided by the theories of the capital structure of the business, in which an entity can apply in its capital structure decisions. The theoretical principles of capital structure can generally be described in terms of the trade-off theory by Modigliani and Miller (1958, 1963),the agency theory by Jensen & Meckling (1976) and extended by Stiglitz and Weiss (1981) and the pecking order theory by Myers (1984).

2.3.1 Modigliani and Miller's Theory

Modigliani and Miller's (1958) theory of capital structure hypotheses that the value of the firm is independent of its leverage in capital structure; is based on the critical assumption that corporate income tax doesn't exist. This is not a realistic assumption. In reality corporate income tax does exist since interest expense paid to debt lenders is treated as a deductible expense. According to their article in 1963, dividends paid to shareholders are not tax deductible while the return to debt holders is not subjected to taxation at the corporate level. This makes debt financing less costly than equity as a source of capital.

Modigliani and Miller (1963) argue that because the interest on debt is tax-deductible, thereby creating tax savings for the borrower, it becomes possible for firms to minimise their costs of capital and maximise shareholders' wealth by using debt. The tax advantage of debt makes it cheaper than equity. The mix of cheap debt with relatively expensive equity reduces a firm's cost of capital, which is the cut-off rate for investment acceptance decisions. This is known as the leverage effect of debt.

According to Miller and Modigliani (1963) a firm should have 100% debt in its capital structure. This way the firm can take absolute advantage of the tax-shield.

Scott (1972) and Kraus and Litzenberger (1973) point out that theoretically 100% tax shield does not exist in reality because of distress costs. Debt leads to a legal obligation to pay interests and principal. If a firm cannot meet its debt obligations it is forced into bankruptcy and incurs associated costs

Therefore, firms select the mixture of debt and equity that minimise their weighted average cost of capital act to minimise the cost of capital and maximise the value of the business by financing with debt. In other words, Modigliani and Miller show that the value of the firm will increase with rising of levered firm and the value of levered firm will be higher than the un-levered firm, a firm without debt financing in its capital structure. Timmons (1994) suggested alternatives to the Modigliani and Miller's (1958, 1963) theory of capital structure. Timmons (1994) observed that capital requirements are different at different stages of business growth. Small and young businesses may be able to draw capital from internal sources such as earnings and informal sources such as family and friends. As successfully business grows, more capital is required to finance growth, and business typically needs at some point to turn to external sources such as banks and the public debt and equity markets.

2.3.2 Pecking Order Theory

Pecking Order theory by Myers (1984) focuses on information costs and signaling effects. The theory shows that businesses prefer to finance their projects from internally generated cash flows. When this source is exhausted, they move on to debt, and only when also the latter source does not suffice to fill financing needs, additional equity is issued. This hierarchy materialises because of differences in financing costs.

Issuing additional equity is the most expensive means of financing as it suffers the most from information asymmetries between managers, existing shareholders and potentially new shareholders. In view of its fixed payments, debt is already less sensitive to information problems, while internally generated resources do not suffer at all from issuing costs. According to the Pecking Order theory external financing would only be used when there is an imbalance between internal funds and real

investment opportunity. When it is necessary to issue external sources, debt issuance is preferred to new equity. Therefore, pecking order theory suggests the use of external debt before the use of external equity by SMEs. Frelinghaus, Mostert & Firer, 2005:9) pointed out that despite the disadvantages of debt (financial distress), the inadequacy of internal equity and the non-availability of external equity imply that debt is one of the principal sources of finance for SMEs.

2.3.3 Agency Theory

The agency theory of Jensen and Meckling (1976) was based on the conflicts between the shareholders and managers of the firm and the equity holders and debt holders. Conflicts between shareholders and managers arise because managers do not hold total residual claim thus they cannot capture the entire gain from their value-maximising activities. On the other hand, conflict arises between debt holders and equity holders because debt contracts give equity holders an incentive to invest sub-optimally. The debt contract results in asymmetric distribution of the gains. According to Stiglitz and Weiss (1981) agency problems such as asymmetric information and moral hazards can impact on the accessibility of credit and hence the capital structure of SMEs.

On other hand, the agency theory postulates that the day to day running of a business enterprise is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders. The theory is on the notion of the principle of ’two-sided transactions' which holds that any financial transactions involves two parties, both acting in their own best interests, but with different expectations.

Emanating from the risks faced in agency theory, researchers on small business financial management contend that in many small enterprises the agency relationship between owners and managers may be absent because the owners are also managers; and that the predominantly nature of SMEs make the usual solutions to agency problems such as monitoring and bonding costly thereby increasing the cost of transactions between various stakeholders (Emery et al.1991). Nevertheless, the theory provides useful knowledge into many matters in SMEs financial management

and shows considerable avenues as to how SMEs financial management should be practised and perceived. It also enables academic and practitioners to pursue strategies that could help sustain the growth of SMEs.

The three theories relate to this study in sense that, it deals with the capital structure of business in whatever circumstance; Small and medium enterprises (SMEs) must have equity, debt or mixture of both equity and debt that affected by socio economic factors that categorise into two owners/managers attributes and SME's features and have impact on SMEs' financial performance. The study followed the first two theories which insist on the concept of tax saving when SMEs issue debt financing and option for sources of finance preferences respectively. Most of SMEs own by individual entrepreneur, therefore the agency theory was not more useful in study.

2.4 Empirical literature review

The empirical literature consists of earlier that are similar or related to the current study. The outcome of this review will be the knowledge as to what data and other materials are available for operational purposes which will enable the researcher to specify the research problem (Kothari, 2000).Studies done by World Bank 2000) and ILO (2001) have showed that many SMEs lack access to finance which leads to poor capital structure decision for starting, operating and expanding their business. The estimate demand for SMEs credit is 2.5million borrowers compared to about 50,000 borrowers being served currently (SIDO, 2002).

2.4.1 Empirical studies related to other countries

2.4.1.1 Review of Studies on capital structure and capital structure decision

World Bank in 2002, a study identified poor access to finance that leads poor capital structure decision as the most critical constraint on small and medium scale enterprises in Nigeria. In fact, 50 percent of the surveyed enterprises received external finance while 79 percent indicated lack of financial resources as a major constraint. Though the study identified poor access to finance by SMEs, the Bankers Committee at the initiative of the CBN developed an interventionist strategy called the Small and Medium Industries Equity Investment Scheme in 1999. This scheme requires banks to set aside 10 percent of their profit before tax to fund SMEs in

equity participation. The pooled money has to be invested in SMEs in so doing reduces the extra risk of lending to SMEs.

Olawale Fatoki and Akinwomi Odeyemi (2010) conducted a study" To investigate empirically the determinants of access to trade credit by new SMEs in Eastern cape Province of South Africa". The results indicated that managerial competency, availability of business plan, location, business size and age, insurance and incorporation are significant determinants of accessibility of debt finance by new SMEs in South Africa and have impact on SMEs' performance. But the data that provided the results were not collected in Tanzania environment

A study by the Kauffman Foundation (2007) on the capital structure decisions of new SMEs in the United States of America finds that contrary to widely held beliefs that new SMEs rely heavily on funding from family and friends, external debt financing such as bank loans and trade credit are the more common sources of funding for many new SMEs during their first year of operation. This is consistent with the pecking order theory, which expects firms to first use internal equity before moving to debt and external equity. Availability of debt finance (both from banks and trade creditors) is one of the reasons for high levels of entrepreneurship and relatively low failure rate of new SMEs in developed countries.

According to research conducted by Zuraidal Ahmad and his fellows (2012), on how capital structure affect firm performance. They come up with findings, that "there is significant relationship between both performance and capital structure indicators, namely short term debt and total debt. Also, ROA of listed companies is affected by firm size, asset growth and efficient but not sales growth as found by Abor (2007). But the researchers used listed companies to collect only secondary data in Malaysia, south-eastern part of Asia continent.

Nirajini and Priya (2013) also conducted a research "To investigate how capital structure affects the company financial performance." The result shows that there is positive relationship capital structure and financial performance and also capital structure has significant impact on financial performance of the firms. Again these

assistant lecturers used only secondary data from listed firms in Sri-Lanka Island southern part of India in Asia continent.

Anton (2012) conducted research on access to finance and growth in Ho municipal of Ghana. The method used were both survey and econometrics methods. The survey involved a sample of 78 SMEs in manufacturing sector in Ho municipal the specified econometrics model has firm's growth as dependent variable and independent variable include access to credit. Both methods come with results that access to credit has led to significant positive effect on growth of SMEs in Ho municipal of Ghana. Anton's research is related to this proposed as it has assessing effects of capital structure decision on SMEs' financial performance. Methods used which are survey and econometrics methods in Ho municipal of Ghana context which is geographical different from Morogoro. Hence, there is need to conduct research in Morogoro. Antony' research used large sample of 78 SMEs, hence this proposed study aimed to narrow it down so as to get best findings related to the study.

Saeed (2007) investigated on the impact of financial liberation on SMEs financial sources. Researchers used SMEs firms' level survey data and macro -economic factor from seven less developed countries in South Africa. The results show that high interest rates, corruption and inflation rates discourage SMEs to utilize bank debt while growing Gross domestic product(GDP) and firm size encourage firm to use bank debt to improve capital structure. Large financial and credit constraints compel toward relating more use of trade credits. Despite the fact that the study seemed to relate with Morogoro but the research failed to analyse the sample used to present the population However, research was conducted in area which is geographical different from this study. Therefore, there is need to conduct research on factors that affect capital structure decision and its impact on SMEs financial performance.

2.4.1.2 Review of Studies on link between Socio economic factors and capital structure

The assets of the SMEs

SME sector faces difficulties to issue debt finance for their investment projects because of lack of assets to be used as collateral for SMEs. In that perspective SMEs fail to grow due to lack of collateral to pledge to access external sources of finance. Bougheas, Mizen, and Yalcin (2005) pointed out that the requirement of collateral is a crucial aspect for SMEs to succeed in accessibility of external financing from lenders. Coco (2000) suggested that the collateral is the lender's protection in case default happened by a borrower, in that perspective collateral is the insurance that lender's contract will be honored and respected. Barbosa and Moraes (2004) and Fatoki and Asah (2011) suggested that operators of SMEs have to own more tangible assets that can create higher value on their firm to accelerate borrowing security. Because, the higher the value of assets the lower the interest rates of the debt to be secured by those assets to improve their capital structure.

The location for SMEs

Berger and Udell (2002) find out that the geographic closeness between lenders and customers has an association with a firm to access to debt finance. The lenders who are geographically in proximity to their customers are capable to utilise soft available qualitative information to establish the credibility of their customers for credit quality. Gilbert (2008) pointed out that the location of the firm has a noticeable relationship with access to the marketplace, supplies and to other resources such as capital, labour, and land. Consequently, firms sited in urban locations may have a higher possibility of success than firms located in rural locations with access to credit, market and other resources. Fatoki and Asah (2011) find out that SMEs located in urban are successful in access to debt financing compared those located in rural areas. Physical closeness between lenders and borrowers produce an improved form of environmental inspect that aid SMEs to improve their capital structure decision.

Age for SMEs

SMEs at the early stage of operation used to experience difficulties in access to debt finance because of informational disparities unless the owners have enough money for their new investment. The SME starts to operate and grows with business performance on a trade which creates a reputation on credit history. The longevity of the firm stays in operation, the more persistence to unpleasant economic circumstances (Chandler, 2009). The study conducted by Klapper (2010) discovered that, the firms with less than 5 years (younger firms) in operation are less likely to rely on debt financing from lenders. Ngoc, Le and Nguyen (2009) supported the argument that younger firms face hardship and more costs in accessing external financing from lenders because information asymmetry.

2.4.2 Empirical studies in Tanzania

Review of Studies capital structure decision for SMEs

In 1991 the Government initiated financial sector reforms in order to create an effective and efficient financial system according to the former governor of the Bank of Tanzania (Rutihinda, 1993). The principal elements of the financial sector reform included liberalisation of interest rates, elimination of administrative credit and foreign exchange allocation, strengthening of the BOT's role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing entry of private banks both local and foreign. As of now, the country has 35 banks compared to only seven (7) banks existing in 1991. (TBA report, 2008)

In the same year, the Co-operatives Societies Act was formulated in order to provide the basis for the development of Savings and Credit Co-operative Societies (SACCOs) as privately owned and organised equity based institutions. The mainstream banking system expanded as a consequence of the reforms at a satisfactory pace.

Despite the proliferation of banking institutions and the wide range of banking products and services, it seems very little attention has been paid to help SMEs' capital enhancement and growth. (BOT, 2006). However, the evidence showed the formal financial institutions find it difficult to deal with SMEs because of the lack of

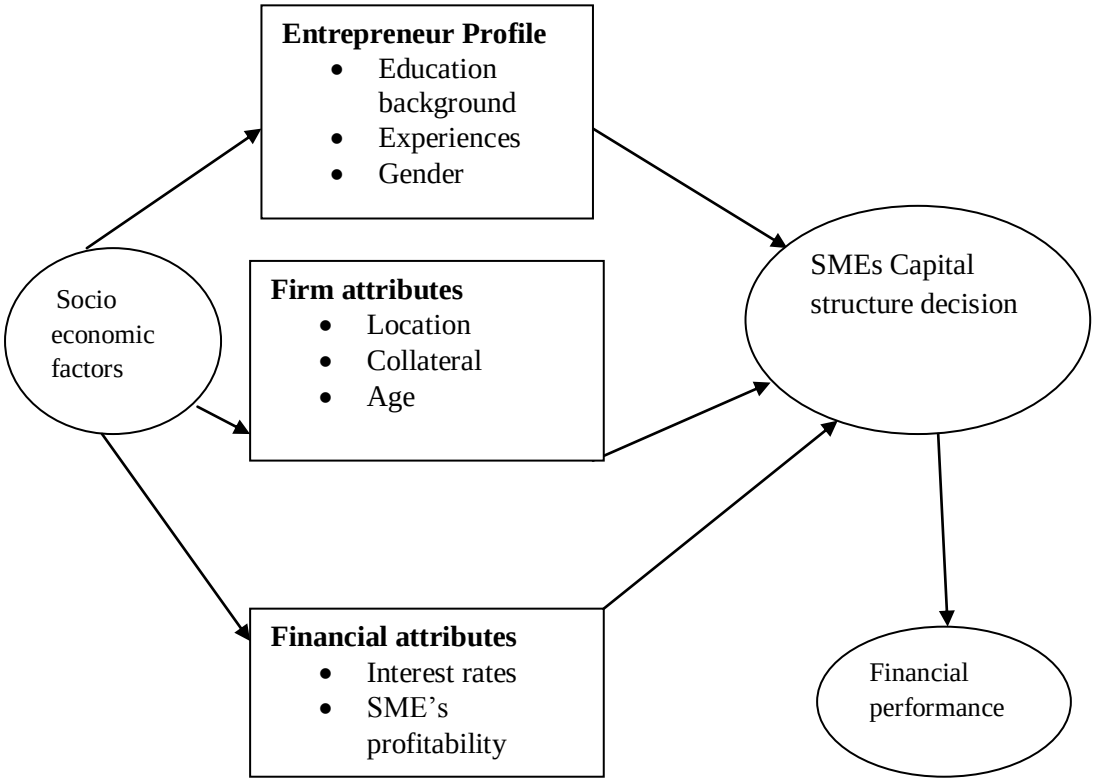
collateral, high incidence of defaults and high transactions costs associated with issuing of small credits (Kashuliza et al., 1998).Due to this, small businesses face a daunting obstacle whereby only few have access to regulated banks, savings and loan associations, investment funds. The level of provision of financial services to the small business sector and other sectors largely depend on the state of the financial system. Existing evidence suggests that despite the financial sector in Tanzania undergoing various development phases, growing small businesses are still constrained in terms of credit accessibility (Satta, 2002).

Again, according to the study done by Shayo and Temu (1998) on the financing sources to small businesses found that only 36% of them have made attempts for credit application from financial institutions. Out of these only 9.5 % managed to get a loan from financial institutions. The reason is that firm's size has a crucial weight on the debt proportion in the capital structure of the firm since real assets tend to influence the accessibility to long debt whenever required (Burkart & Ellingsen, 2004). Large firms tend to be well diversified in their operations which influence their stability; thereby size can be substituted for insolvency (Honhyan, 2009). Cassar (2004) stipulated that small firms find more expensive in solving problems associated information asymmetry with lenders. Most of firms in Tanzania operate in SME sector featured with difficulties in start-up and growth barriers associated with a shortage of finance.

2.5 Conceptual framework of the study

It presents the gap that the study tests. A conceptual framework shows the relationship between the independent variable and dependent variable. In this study the purpose was to assess the impact of socio economic factors on SMES' capital structure decisions and to what extent affect financial performance for SMEs. The socio economic factors are categorised in three major groups, namely Entrepreneur profile, Firm attributes and other attributes which influenced by external factors.

Figure 2.3 Conceptual framework



Source: Researcher's design

2.6 Hypothesis

A hypothesis is an observation statement that derived from theory and or practices to provide logical tentative solution to the research question (Jamal & Kamuzora, 2008). The hypothesis of this study comes from the variables that extracted from both independents and dependent. The socio economic factors for SMEs' capital structure decision shown in the research model (Figure 2.1) are used as base for formulating the hypothesis on how those factors can influence capital structure decision. Debt-equity and debt-asset ratios also used to formulate hypothesis to determine to what extent SMEs' capital structure decision affect financial performance.

Therefore, these hypotheses focus on the determinant variables that have been identified in the previous literature which has been associated with socio economic factors, capital structure decision and financial performance for SMEs.

2.6.1 Entrepreneurs Profile

SMEs capital structure as proportionality of debt finance to equity depending on some extent on the preference of each firm's entrepreneurs but also on what is available to them. In what form, from whom, how successfully and at what cost firm SMEs are financed thus depends on a wide range of factors both internal and external to firms. The internal resources available to the firm's entrepreneurs and other insiders are of course of important. But the external factors depends on the firm's entrepreneurs' own ability to project a credible financial proposal and on their willingness to share control, as well as on the nature of their business plan , and the uncertainties and risk involved in implementing it.

The entrepreneurs' profile has profound consequences for running a business. They also take a priority position in all credit assessment by borrowers to improve their capital structure. These factors include: education background, experience and gender. Entrepreneurs related factors are discussed below

2.6.1.1 Education background of entrepreneurs and Employees

One among the determinants of capital structure for SMEs is the entrepreneur's education background. It is possible that the level of education is a major factor in coming to the lending decision, either because bankers value a higher education or because higher education means that entrepreneurs are more articulate and more likely therefore to persuade the banks that they have a viable proposition. The more highly educated were less likely to be turned down for loan as improvement of capital structure. The less educated were more likely not to apply, based on the assumption that they would be turned down.

Education itself is a means through which knowledge ca be gained and includes all the teaching, formal and informal learning, tutoring and instruction individuals receive in their background (Bosma & Harding, 2006). Education has different influences on the firm performance depending on how the context of performance is defined. For example, study done in India by Nafziger and Terrell (1994) found the owner's level of education to be negatively correlated with survival of small businesses. In Nigeria, Nafziger (1997) found education to be positively related to

performance, but negatively related to the rate of profit, both influence SMEs' capital structure decision.

Moreover, the most research done by Irwin and Scott(2010) using a telephone survey of 400 SMEs in the UK found that graduates had the least difficult in raising the level of leverage from the banks. This is because more educated entrepreneurs have ability to present positive financial information and strong business plans and they have the skills to manage the other functions of the business such as finance and human resources and these skills to manage the other results to high performance of the business which helps those firms to increase leverage without any difficulty.

The studies concerning the influence of Education of entrepreneurs and Employees on SMEs capital structure decision showed mixed results which justify the need of carrying out more studies in that area particularly in Tanzania. From this the first hypothesis of this study is

H1: *Entrepreneurs and Employees with less Education background cannot influences optimum SMEs' capital structure decision.*

2.6.1.2 Entrepreneur's experience

Entrepreneur's experience is considered important in increasing leverage levels. Previous researchers have found positive relationships between previous management and business growth. Dobbs and Hamilton (2007) emphasised the positive effect of past experience on small business growth by proposing that owner-managers with previous experience are more likely to avoid costly mistakes than those with no prior experience. This is because knowledge gained from business experience provides the entrepreneurs with certain key competencies and inside information needed to recognise and exploit opportunities. Through work experience, people develop information and skills that facilitate the formulation of entrepreneurial strategy, the acquisition of resources, and the process of organising.

Therefore, the Entrepreneur's experience is expected to be among the major influences in SMEs' capital structure decision. The issue needs further investigation. Therefore, the second hypothesis of the study is

H2: Experience for entrepreneur cannot influence optimum SMEs capital structure decision.

2.6.1.3 Gender of entrepreneurs

Women are more risk averse than men and they are less likely to take on debt (Brown & Segal,1989; Changani,1986;Collerett & Aubrey,1990,Olsen & Currie,1992; Scherr et al.,1993).According to this view women avoid debt and reluctant to put up the collateral that may be required to obtain a loan (Carter Cannon,1992).

Networking is a set of interrelated relationships that mutually benefit that entire are involved, through sharing and giving resources, information and data, and person referrals. It seems unfair that women entrepreneur have to create their own special gender bias network (Nguyen, 2007).

Granovetter (1973, 1974) argued that people who have contacts in more places (a greater range) have greater access to resources and information. Brush (1992) suggested that, women may not network as effectively as men. Thus, they may not have the same access to sources of information and capital, while men have good network.

Therefore, studies show that there is a relation between gender networking and the use of leverage. In general, there is a high level of using leverage if business owners have good and large networking.

From this review it is maintained that the influence of gender of and SMEs' capital structure decision is still unsettled issue that needs further investigation. Therefore third hypothesis is

H3: There is no significant difference between gender of entrepreneurs and SMEs capital structure decision

6.2 Firm attributes

To improve capital structure is a crucial factor enabling firm especially SMEs to maintain their day to day business as well as to improve financial performance as

achievement for long -term growth and investment goals. Without improving capital structure decision by increasing level of leverage, SMEs cannot be able to make the necessary investments in innovations and technologies to improve their trade capacity (OECD, 2004).As observed by ECB (2011) firm age, location, collateral and profitability appear to key determinants as socio economic factors of whether a firm experiences problems in improving capital structure through accessibility of external finance. These variable are discussed here below

2.6.2.1 Location

The location of the firm can be the determinant to access to finance for the capital structure. For example, firms located in rural area can find it difficult to improve capital structure through debt financing as compared with those located in urban areas. The research made by Pandula (2011) identified a variety of factors which may contribute to partial variations in the availability of bank finance for SMEs in rural areas. The bank branch managers assigned in these rural bank branches may have limited delegation of authority. As a result, there may be delays in approving loans requested by rural SMEs or high amount of loan rejections, as the bank loans are processed and approved by head office officials who have no knowledge of customers or projects based in rural locations.

Again, bank may be reluctant to lend to small firm located in rural areas, as assets offered as collateral by these firms may have less market value, and in case of default, they may find it difficult to realise these assets.

Empirical evidence by Fatoki and Francis (2011) indicates that there is a significant positive relationship between SMEs that are located in the urban areas and leverage level. Due to all these arguments, it is important to test this hypothesis:

H4: Location of SMEs can influence SMEs capital structure decision and leverage level improvement.

2.6.2.2 SMEs' collateral

Collaterals of the SMEs are one of the factors that contribute in shaping the level of debt. According to Harris and Raviv (1998), the firm level of tangible and generic

asset result in the higher liquidation value of the firm. As an example, Storey (2004) argued that, in many cases, banks prefer to lend money to those firms with more tangible asset to secure their funding. According to the previous studies such as in Cassar and Holmes (2003), one of the crucial determinants of capital structure of SMEs is the structure of the assets in these firms. If a firm has more tangible assets it would decrease the probability of default since the liquidation of the firm increases subsequently.

Therefore, firms are less probable to be bankrupt after using the debt financing, which in turn decrease the debt financing cost and encourages the firms to increase the debt level. Barnea et al. (1991) believed that there is a direct positive relationship between the agency problem and the level of asymmetric information. When the level of asymmetric information is high, the agent has the capacity and motivation to transfer wealth among the parties. The agent partial ownership let him use the firm's assets, and pay less than the sum of the 29 individual cost to the principals. Barnea et al. (1991) argued that the agency cost is higher in SMEs because the owner of a small firm has a tendency to follow his own interest prior to other stakeholders. In addition, agency problems solutions are expensive for SMEs, which increase the cost of transaction between SMEs and its stakeholders. Monitoring is even more difficult and expensive for the SMEs because small firms are not required to disclose much of the information. Therefore, providing audited financial information causes a significant cost for SMEs. Adverse selection and moral hazard problems are also more severe for SMEs than large firms, because of their closely held characteristics.

The solution to avoid all the above mentioned cost is to raise debt which is secured by the known value property. Stiglitz and Weiss (1981) stressed out that banks respond to moral hazard and adverse selection problems by asking for collateral. According to Binks et al. (1988) in many countries lenders seeking for collateral or lenders only offer secured loans. Therefore, firms, which have fixed assets with a strong collateral value, have an easier access to raise external finance. Accordingly, due to the availability of collateral, these firms have a higher level of debt rather than firms with lower value of collateral. The following hypotheses are shaped to analyse whether the above discussion holds true or not:

H5: There is a positive significant relationship between Collaterals and capital structure decision

2.6.2.3 Age of SMEs

Jani et al. (2005) argued that the life cycle of the firm influences the leverage level. Dollinger (1995) stressed out that the developing firms are more likely to finance their project with retained earning rather than external fund. He argued that developing firms face difficulties in reassuring the creditors to provide them with funds; hence they are more willing to use their internal source. However, the case is otherwise for the mature companies; since they have proved their ability to staying alive and becoming mature in the competitive market.

In contrast, Van Der Wijst(1989) argued that older firms are using less debt to raise fund in compare with their younger counterparts. Dollinger (1995) stress out that the firms' condition can influence on the level of debt. For example, mature firms are more likely to use equity instead of debt, and the vice versa for developing and small firms. Young and small firms prefer to use internal sources like trade credit, family loans instead of external source.

As the number of years increase since a firm starts its operation, the amount of accumulated funds accordingly will increase. Therefore, older firms are less likely to use external funding since they can use their internal funds to finance their projects. On the other side, young firms may not have access to a sufficient amount of internal funds, and they are more likely to use external financing.

Petersen and Rajan (1994) showed that as the firm spends more time with the bank, the availability of finance from the bank will increase. In fact, the established banking relationships increase the availability of external finance and reduce the cost of credit for companies. Therefore, when the age increase the amount of external finance will increase. However, Petersen and Rajan argued that long term debt decreases with age because the older firms tend to use the accumulated retained earnings. Therefore, there should be a negative relationship between age and long term debt.

As reviewed in the paper by Fatoki and Francis (2011), a longer firm exists and the bigger it is the more it signals that it can whether tough economic conditions (Chandler, 2007:10).

Pecking order theory provides support in shaping the below hypothesis. Considering the above argument this hypothesis is suggested:

H6: Younger SMEs are more likely to be credit constrained for capital structure improvement than older SMEs

2.6.3 Financial attributes

Financial attributes namely Interest rate charged and SME's profitability are among the most factors that can influences capital structure decision. Here below is discussion of these variables.

2.6.3.1 Interest rate charged

The interest rates charged by a financial (credit) institutions, it is seen as having a dual role of sorting potential borrowers or SMEs (leading to adverse selection), and affecting the actions of borrowers or SME owners (leading to the incentive effect). Stiglitz and Weiss (1981), interest rates thus affect the nature of the transaction and do not necessarily clear the market. Both effects are seen as a result of the imperfect information inherent in credit markets. Adverse selection occurs because lenders would like to identify the borrowers most likely to repay their loans since the banks' expected returns depend on the probability of repayment. In an attempt to identify

borrowers with high probability of repayment, banks are likely to use the interest rates that an individual is willing to pay as a screening device.

However, borrowers willing to pay high interest rates may on average be worse risk takers. This is due to the fact that as the interest rate increases, the riskiness of those who borrow also increase, reducing the bank's profitability. The incentive effect occurs because as the interest rate and other terms of the contract change, the behaviour of borrowers is likely to change since it affects the returns on their businesses.

Stiglitz and Weiss (1981) show that higher interest rates induce SMEs to undertake business with lower probability of success but higher payoffs when they succeed (leading to the problem of moral hazard). Since the bank is not able to control all actions of borrowers due to imperfect and costly information, it will formulate the terms of the loan contract to induce borrowers to take actions in the interest of the bank and to attract low risk borrowers. Therefore, it is then hypothesized that

H7: Interest rates charged by financial institutions can influence SMEs' capital structure decision

2.6.3.2 SME's profitability

Pecking order theory is totally consistent with SMEs behaviour in terms of composition of their capital structure. SMEs are more willing to use their internal fund rather than looking for external funds. As Myers (1984) explained, firms with the ability to generate acceptable amount of profit and earnings are tend to use their own internal source of funds to finance their project. Therefore, it can be concluded that there is a negative relationship between the firm profitability and the level of leverage. This conclusion is compatible with pecking order theory and other relevant studies like Cassar and Holmes (2003).

However, there some established theories believed that a positive relationship exists between profitability and leverage. For instance, Prasad et al. (2001) argued that the market is not willing to finance companies with low level of profit. Tong and Green (2005) pointed out, that first of all there is a considerable negative relationship

between profitability and gearing. Secondly, they understand that there is a positive relationship between past dividend and current debt level. Their findings are hugely consistent with pecking order theory.

Therefore, it is reasonable to conclude that the first choice of finance for profitable firms is retained earnings, then debt, and finally equity. According to Pettit and Singer (1985), pecking order hypothesis is relevant for SMEs, because the cost of external fund is higher for them rather than large firms. In addition to that, many studies have attempted to do this and found that greater sales and profits are associated with greater SME's capital structure decision. The European commission (2003) stated that poor business performance as one of the reasons for improving leverage level. This lead another hypothesis of this studies that:

H8: Low profitability SMEs has limited SMEs' capital structure decision improvement.

2.6.4 Financial performance

Hammes (2003) examined the relation between capital structure and performance by comparing Polish and Hungarian firms to a large sample of firms in industrialised countries. He used panel data analysis to investigate the relation between total debt and performance as well as between different sources of debt namely, bank loans, and trade credits and firms' performance, measured by profitability. His results showed a significantly negative effect for most countries. He found that the type of debt, bank loans or trade credit is not of major importance.

Mesquita and Lara (2003), in their study found that the relationship between rates of return and debt indicates a negative relationship for long-term financing. They however, found a positive relationship for short-term financing and equity. In a recent study, Abor (2005) examined the effect of capital structure on the corporate profitability of listed firms in Ghana using a panel regression model. His measures of capital structure included short-term debt ratio, long-term debt ratio and total debt ratio. His findings showed a significantly positive relation between the short-term debt ratio and profitability. However, a negative relationship between long-term debt

ratio and profitability was established. In terms of the relationship between total debt ratio and profitability, the results of his study indicated a significantly positive association between total debt ratio and profitability.

The empirical studies have given inconclusive results regarding the capital structure choice and its effect on firms' performance for SMEs. Therefore, this led to the final hypotheses of this study

H9: There is positive relationship between SMEs' debt-equity ratio and financial performance.

H10: There is positive relationship between SMEs' debt-asset ratio and financial performance.

2.7 Conclusion on literature review

This chapter presents the theoretical framework of the study, empirical framework and conceptual framework. From the theoretical framework and empirical framework the concepts and findings gave a way and limits of research analysis.

Most researches on comparisons studies about the socio-economic factors and SMEs capital structure were done in other countries like United Kingdom, United State and other East Africa countries which basically were on determinants of capital structure. Most studies done in Tanzania are concerned with Micro finance institutions and small businesses. There is no evidence that the studies on this area had been conducted or not in Tanzania. The question is that what are socio-economic factors that influence capital structure and to what extent they have impact to the SMEs capital structure decision in Tanzania? The findings of those studies are inconclusive. Therefore, this study was an attempt to fill gap knowledge.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction.

This chapter gives an overview of the research methodology used in this study. The chapter describes the study area and research design adopted. It then gives a detailed description of the sample and the sampling procedure used in this study and closes with the techniques used in data collection and the methods of data analysis. Research methodology is that best meets the needs of the defined problem (Solomon et al., 1997). The Researcher must meet the needs of the defined problem. The problem of this study is, "Assessment of the impact of socio-economic factors on SMEs' capital structure in Tanzania".

3.1 Area of study

The selection of a research site is essential. It influences the usefulness of the information produced. The study was conducted in Morogoro municipality eastern part of Tanzania. It is one of the local government authorities in Morogoro region and covers an area of 531 square kilometers. And the areas were selected purposely (systematic sampling) because it will be easy to collect information due to its communication network and infrastructure. (Morogoro municipal council planning report, 2011).

The study also has carried out in four wards, namely Boma road, Kingo, Kihonda and Sabasaba in Morogoro municipality. The study focused on these wards because the largest number of small and medium enterprises, micro- financial institutions NMB banks, FINCA, and PRIDE are found in these wards of Morogoro municipality in Morogoro region.

3.2 Research design

The conceptual structure of this study was a case study research design. This is chosen by researcher as it allows for an intensive and analysis of the problem as represented by a single unit (Hussey & Hussey, 1997). This research design was considered for the objectives of the research study, and methods of data collection

adopted. The researcher adopted both quantitative and qualitative approaches. Quantitative approach which identifies and measures variables for numerical analysis of data in trying to answer the research questions and tracing general trends at all levels of question in association with SMEs in both wards in Morogoro municipality (Nyamsogoro, 2010). Qualitative approach was used because it enables the researcher to obtain and interpret informants' meaning and experiences in their natural settings. The research design also applied capital structure theories used to structure the study (Hair *et al.*, 2006).

3.3 Target Population of the Study

The targeted population of this study was the SMEs Owners and managers, financial institutions managers as well as management of SIDO within the study area. The reason of targeting the SMEs Owners and management was that these groups are the one who actually influence the SMEs' capital structure decisions as they participate directly in improving financial performance in SMEs in Tanzania.

3.4 Units of Analysis

In this study, SMEs in Morogoro municipality was used as the main unit of analysis from which a sample of respondents was drawn. The sub-units of enquiry were some other individuals whose selection was influenced by their knowledge and experience on determinants of SMEs' capital structure decision. These other individual included financial institutions managers as well as management of SIDO, both from Morogoro municipality.

3.5 Variables and their Measurements

The research model above presented all variable of this study. These variables are grouped as Dependent and Independent variables (Kothari, 2004). The first dependent variable is capital structure decision which determined by leverage level while independent variables are categorised into three, that is, Entrepreneur Profile(which comprises Education background, Experiences and Gender); Firm attributes (consist of Location Collateral and Age); and Financial attributes (encompasses Interest rates and Firm profitability). Debt-equity and debt-asset ratios also used as independent variables determine to what extent SMEs' capital structure

decision affect financial performance as dependent variables. Presented here are measurements of each variable.

3.6 Population, sample size and sampling techniques

3.6.1 Population

The population of this study was the SMEs Owners and managers, financial institutions managers as well as management of SIDO in Tanzania. The reason of targeting the SMEs Owners and management was that these groups are the ones who actually influence the SMEs' capital structure decisions as they participate directly in improving financial performance in SMEs in Tanzania.

3.6.2 Sample size

The sample size of the study was a total of 110 respondents from four wards of Morogoro municipality in Morogoro region include 100 small and medium enterprises, 06 financial institutions as well as 04 for management of SIDO from Morogoro municipality in Morogoro region.

Table 3.1: SMEs' Sample distribution

	Ward	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Boma	25	20.5	25.0	25.0
	Kingo	25	20.5	25.0	50.0
	Kihonda	25	20.5	25.0	75.0
	Sabasaba	25	20.5	25.0	100.0
	Total	100	82.0	100.0	
Missing	System	22	18.0		
Total		122	100.0		

Source: Field study, 2015

3.6.3 Sampling technique

The researcher adopted purposive sampling to obtain respondents from managerial position for each SME. The research adopted simple random sampling to obtain 25 SMEs owners and/or employees from managerial position for each ward in four wards of Morogoro municipality making total number of 100 respondents for SMEs.10 respondents in managerial position from financial institutions and SIDO

made a total of 110 respondents as sample size of this study (Donald and Delno, 2006).Therefore, the purposive sampling technique adopted provided the opportunity to some important respondents to have the chance of being included into the sample due to their positions (Kothari, 2004). Hence, increases utility of findings high accuracy. Therefore, researcher has decided to select sample of 110 respondents.

3.7 Data type and Data source

Both primary and secondary data were employed in this study. Primary data was collected through questionnaires and structured interview while secondary data had collected through reviewing official documents that reflect the challenges that small and medium sized enterprises encountered in capital structure decision to financial performance. Primary data were the data collected for first time while secondary data were the data gathered from literature to find out what has been done in relation to the study, how it was done and what has remained to be done. This method involved critical review through reading of books, publications, articles and electronic media.

3.8 Method of Data Collection

The study was conducted through the following data collection methods which include both secondary and primary data. Both secondary and primary data were used so as to get relevant information related to study.

3.5.1 Questionnaire

Questionnaires as a tool of data collection were designed and administered on the premises of the SMEs or businesses (White, 1999). Two sets of questionnaires were employed to the interviewees. The first set of questionnaire was purposely for SMEs owners and managers and the second one for managers of financial institutions and SIDO. Both close ended and open ended questions had designed to facilitate the easiest of gathering information. According to Msabila and Nalaila (2013), the responses from questionnaire are easy to analyse and interpret.

3.5.2 Interview

This interview was provided; respondents were asked questions in order to find out what they do think about the capital structure decisions on financial performance of

SMEs. Most interview questions were unstructured. This was because interview questions may arise from respondents when there is a need of getting further information (White, 1999). On the other hand, the structured interview was for management of financial institutions and SIDO.

3.5.3 Documentary review

The study reviewed different journals, articles, published and unpublished materials, magazines, statistical reports, catalogues and the like that reflects the challenges that small and medium sized enterprises encountered in capital structure decision to financial performance. The documentary review also assisted the researcher to understand different theories of capital structure and empirical studies from related field of study (White, 1999).

3.6 Data processing and Analysis

3.6.1 Data processing

Data collected from owners and managers of the SMEs as well as financial institutions and SIDO managers were coded and entered in the Statistical Package for Social Science (SPSS) software. Computational data sales, operating costs and profitability of the Small and Medium Enterprises (SMEs) initially were processed using excel software before entering the results in the SPSS software. On the other hand, information collected regarding assessment of SMEs capital structure and collected through interviews and documentary review was summarised into different forms such as percentages, tables and charts.

3.6.2 Method of data analysis

Primary data which were collected from owners and managers SMEs financial institutions and SIDO management were analysed by using different tools and methods. The analysis models that were employed: equity-assets ratio and equity-debt ratio, independent T-test, correlation analysis and multiple regression models.

The data obtained from the respondents were tabulated for analysis and interpretation with the help of those models. The first model was used to analyse data for SMEs' capital structure and capital structure decision, therefore the model helped to

determine leverage level of SMEs of each SME' sample. The independent T-test and correlation analysis models were used to analyse the significant different and relationship between the variables and capital structure decision as well as to establish if there is multi-linearity between variables exist.

The multiple regression models help to establish the relationship between the dependent variable (financial performance) and the independent variables; location, age, profitability, growth and asset structure (collateral), tax as well as managerial competency and gender as entrepreneur characteristics (Nyamsogoro, 2010). The capital structure decision can be described as the, equity or mix of debt and equity in a firm can be measured by equity to asset and debt to total assets ratio. Financial performance as the dependent variable was measured by the using either equity or both equity and debt finance and determined by the;

- Age of the business –criteria are number of years business exists.
- Size of the business-criteria may be number of workers in the business
- Profitability of the business –criteria profit earned per days or per month

The regression equation was therefore formulated and coefficients of the significant variables entered.

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \ldots\ldots..+ \beta nXn + €0$ ……(i)

$SMEcsd = \beta 0 + \beta 1(EduBacg) + \beta 2(Exp) + \beta 3(Loca) + \beta 4(Fage) + \beta 5(Coltr) + \beta 6(Pfb) + \beta 7(IcF)$……..(ii)

$SMEfp = \beta 0 + \beta 1(D\text{-}ER) + \beta 2(D\text{-}AR)$……..(iii)

Where by:

SMEcsd = SME's capital structure decision, EduBacg= Education background of entrepreneur, Exp= Experience of owner/manager, Firm's age, Loca= Location of SME, Colt= Collateral, Pfb= Profitability, IcF=Interest rates charged by Financial institution.

SMEfp= SME's financial performance; D-ER= Debt-equity ratio, D-AR= Debt-asset ratio

3.7 Ethical Consideration

Suzgo (2002) states that ethical implication as a study of systems and customs as seen in lives of certain people. The researcher was open and honest to the respondents in collecting the required information. The researcher obtained informed consent from any subjects used in the study and ensured that all subjects participate voluntarily. In addition to that, the researcher ensured the confidentiality to the respondents and considered much traditional and customs of the selected sample subjects. The researcher received permission from the SMEs' owner or employer to inform the respondents the aim of conducting of the research.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This chapter presents the study findings and analysis of data collected in the field. The data collected has been sorted with the help of statistical computer programme (SPSS) after the presentation of the data collected from both tools; analysis is made with the help of the reference. The results of the findings were presented in texts, tables and figures. In order to realise the objectives of the study, the researcher assessed the impact of social-economic factors on capital structure decision of small and medium enterprise in Tanzania. The chapter provides a step by step presentation of data collected and their implications to the objectives of the study.

4.2 Data clearing, Validity and Reliability

To test whether data collected from respondents are valid and reliable for data processing and drawing conclusion of the findings, the researcher validated the questionnaires used in the research by asking the experts who commended on the representativeness and suitability of the questionnaires. These helped the researcher to establish content validity (Mitchell, 1996).

Reliability of the data collected was concerned with the questionnaires' consistency of responses to the questions asked in repeated measurements(Carmines & Zeller, 1979).This was carried out during the pilot study as well. The collected data were verified for their reliability using reliability analysis.

Furthermore, the triangulation approach was employed in the study to enhance data validity. Triangulation means using different methods to gather information such as structured and semi-structured interviews, questionnaires and secondary sources (Smith & Morrow, (1996). However, Denzin and Lincoln (2000) cited scholars who contend that 'triangulation is not a tool or a strategy of validation, but an alternative to validation.

4.3 Key Characteristics of the Respondents

In this study most of the SMEs were characterised into different categories, namely Entrepreneur' profile which included education background, Experience and Gender and SME' attributes which considered are in terms of the location, Collateral, year of establishment that is age, and SME's performance. Others that were taken into consideration are form of ownership, marital status, and others

4.3.1 The profile of SMEs' Owners.

The profile of SMEs' Owners/managers included education background, Experience and Gender. Tables provide the results from the respondents as follows:

Table 4.1 The Responses of SMEs' Owners in Relation to education level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary	23	18.9	23.0	23.0
	Secondary	52	42.6	52.0	75.0
	Certificate/Diploma	17	13.9	17.0	92.0
	Degree	8	6.6	8.0	100.0
	Total	100	82.0	100.0	
Missing	System	22	18.0		
Total		122	100.0		

Source: Research results analysed, 2015

The study results show that for Education background 23.0% had primary education, (52.0%) secondary education, (17.0%) had tertiary education and (8.0%) had attained higher education at degree level. The study concludes that most people engaged in SME sector have secondary schools education level followed by primary level.

Table 4.2: The Responses of SMEs' Owners in Relation to Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 5 year	50	41.0	50.0	50.0
	5-10 years	35	28.7	35.0	85.0
	11-15 years	8	6.6	8.0	93.0
	16-20 years	3	2.5	3.0	96.0
	Above 20	4	3.3	4.0	100.0
	Total	100	82.0	100.0	
Missing	System	22	18.0		
Total		122	100.0		

Source: Research results analysed, 2015

The work experience of respondents attained was that those who had below 5 years occupied 50% and those who were within 6 and 10 years occupied 35%.Those within 11 and 15 years were 8% while within 16 and 20 years were 3%.Those above 20 years were 4%.

Table4.3: The Responses of SMEs' Owners in Relation to Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	55	45.1	55.0	55.0
	Female	45	36.9	45.0	100.0
	Total	100	82.0	100.0	
Missing	System	22	18.0		

Source: Research results, 2015

The gender distribution included male and female. Those who were male occupied 55% and female occupied 45% as illustrated in Table 4.3. This study shows that more males participate in operation of small and medium enterprises than females, although, there are other studies that showed females participating more than males.

4.3.2 The attributes of SMEs.

SME' attributes included location, collateral, year of establishment that is age, and SME's performance.

Table 4.4: SMEs' in relation to Location

	Ward	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Boma	25	20.5	25.0	25.0
	Kingo	25	20.5	25.0	50.0
	Kihonda	25	20.5	25.0	75.0
	Sabasaba	25	20.5	25.0	100.0
	Total	100	82.0	100.0	
Missing	System	22	18.0		
Total		122	100.0		

Source: Field study, 2015

It was important for this study to learn from respondents according to location, four wards were involved which included: Boma, Kingo, Kihonda and Sabasaba. The findings showed that each ward had 25 percentages of interviewed SMEs.

Table 4.5: SMEs' in relation to value of Collateral

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5M	59	48.4	59.0	59.0
	A least 5M	41	33.6	41.0	100.0
	Total	100	82.0	100.0	
Missing	System	22	18.0		
Total		122	100.0		

Source: Research results, 2015

The value of collateral of SMEs showed that 59% were less that 5Tshs millions while 41% were at least 5Tshs millions.

Table 4.6: SMEs' in relation to Age in years

SMEs	Frequency	Percent	Valid Percent	Cumulative Percent

Valid	2	8	6.6	8.0	8.0
	3	22	18.0	22.0	30.0
	4	19	15.6	19.0	49.0
	5	22	18.0	22.0	71.0
	6	10	8.2	10.0	81.0
	7	6	4.9	6.0	87.0
	8	4	3.3	4.0	91.0
	9	1	.8	1.0	92.0
	10	1	.8	1.0	93.0
	11	1	.8	1.0	94.0
	12	2	1.6	2.0	96.0
	13	1	.8	1.0	97.0
	15	1	.8	1.0	98.0
	17	1	.8	1.0	99.0
	23	1	.8	1.0	100.0
	Total	100	82.0	100.0	
Missing	System	22	18.0		
Total		122	100.0		

Source: Research results, 2015

It was observed that most of the SME owners interviewed commenced businesses between the 2 and 23 years of experience. The result showed that 22 percent had experiences of 3 and 5 years; 19% had experiences of 4 years while 10% for 6 years. One per cent of SMEs had experiences of 9, 10, 11,1315,17 and 23 years and 2% of SMEs had experience of 12 years**.**

4.4 SMEs' Capital structure and capital structure decision

SMEs' Capital structure and capital structure decision was one of the areas that the researcher investigated. The researcher wanted to collect data in order to assess whether SMEs were facing difficulties when deciding the proportion of capital structure for their entrepreneurship.

4.4.1 Capital structure and capital structure decision

Capital structures explained how projects and plans for entrepreneurship are financed. The proportion of capital structure varies for each firm. In fact, capital structure proportion determines how the profit should be divided between creditors

and the SME's owners. According to Westfield and Jordan (2008), if all the assets are divided into equity and debt, then the capital structure can be figured as a pie.

Findings from Table 4.7 below shows that majority of SMEs started entrepreneurship by personal saving (65%). 29% of the source of finance are from other friends and relatives and very few from debt financing (4% from banks and 2% from other financial institutions such as FINCA and PRIDE).

Table 4.7: SMEs' capital structuring

	Characteristics	Categories of characteristic	Frequency	Percentage (%)
1	Sources of finance	Personal saving	65	65.0
		Friends and Relatives	29	29.0
		Bank	4	4.0
		Other financial institutions	2	2.0
2	Applied loan	Yes	98	98.0
		No	2	2.0
3	Obtained loan	Yes	25	23.0
		No	73	73.0
4	Capital structure	Only equity	75	75.0
		Only debt	00	00.0
		Both	25	25.0

Source: Field data

From all 100 respondents who participated in the study, 75% of the SMEs were financed by equity financing. A whole part of their capital was not obtained from debt financing. On the other hand, 25% of SMEs has certain level of leverage (Table 4.7). Findings also indicated most the SMEs owners have tried to increase the level of leverage (98% who applied loan) but only 25% of them acquired debt financing for their enterprises. Most of SMEs initially choose equity finance as source of finance because payment of dividend to the owners is not binding like debt. Dividend is paid if profits are available and do not create any charge on assets (collaterals) of

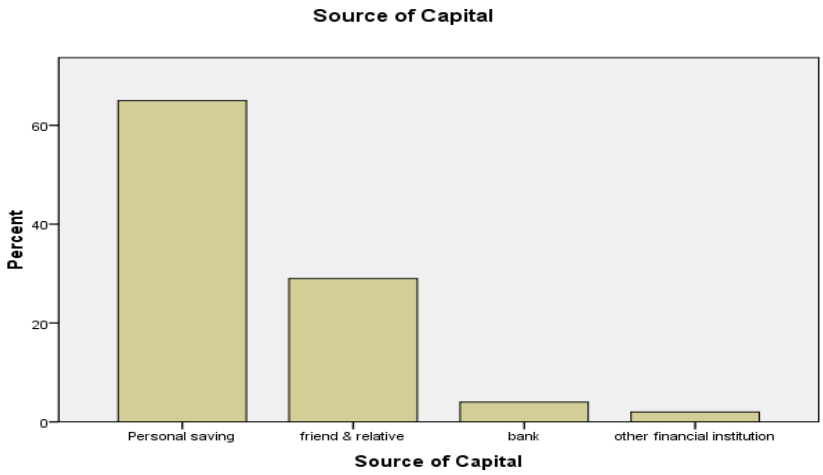
the SMEs. On other hand, debt financing is needed for SMEs expansion of business; hence get more value for business.

4.4.2 Presentation of the Finding from Primary Data

4.4.2.1 Sources of Capital for SMEs

From all 100 respondents who participated in the study, 65% of the SMEs did get from personal saving, 29% of them got from friend and relatives, 4% were from bank and other SMEs did get other financial institutions such as FINCA, pride and vision. This implies that majority respondents who participated in the study were financed from personal saving as source of capital.

Figure 4.1 Source of Capital of Respondents

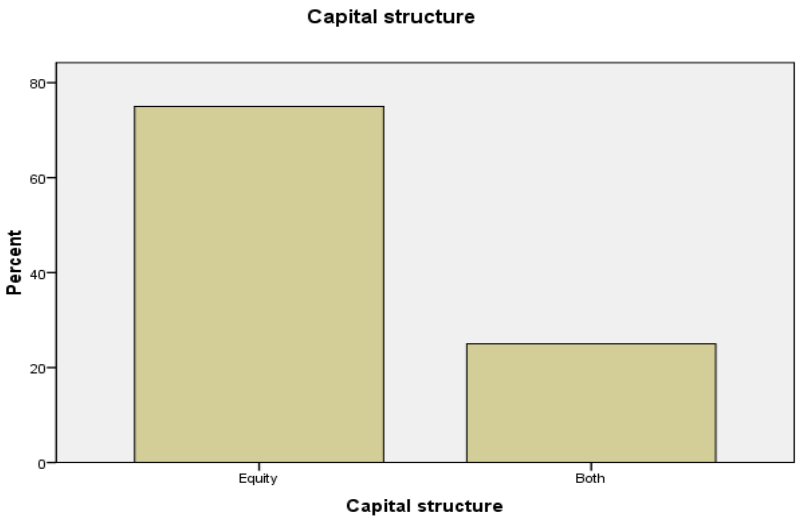


Source: Field data

4.4.2.2 SMEs' capital structure

Information from respondents showed that Capital structures for SMEs, 75% were financed by only equity financing and only 25% of SMEs tried to improve the leverage level by financing through both equity and debt finance

Figure 4.2 Capital structure of Respondents

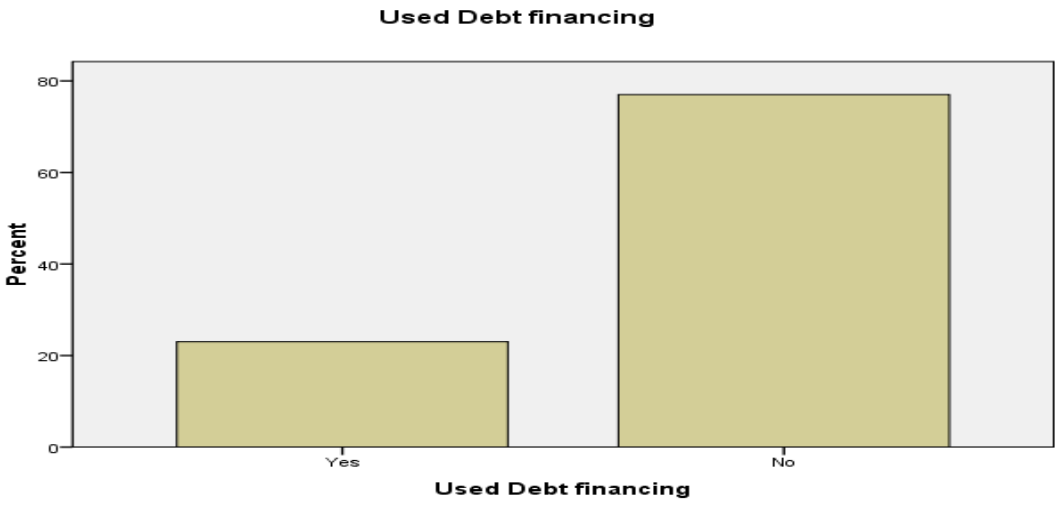


Source: Field data

4.4.2.3 Debt financing for optimal capital structure decision

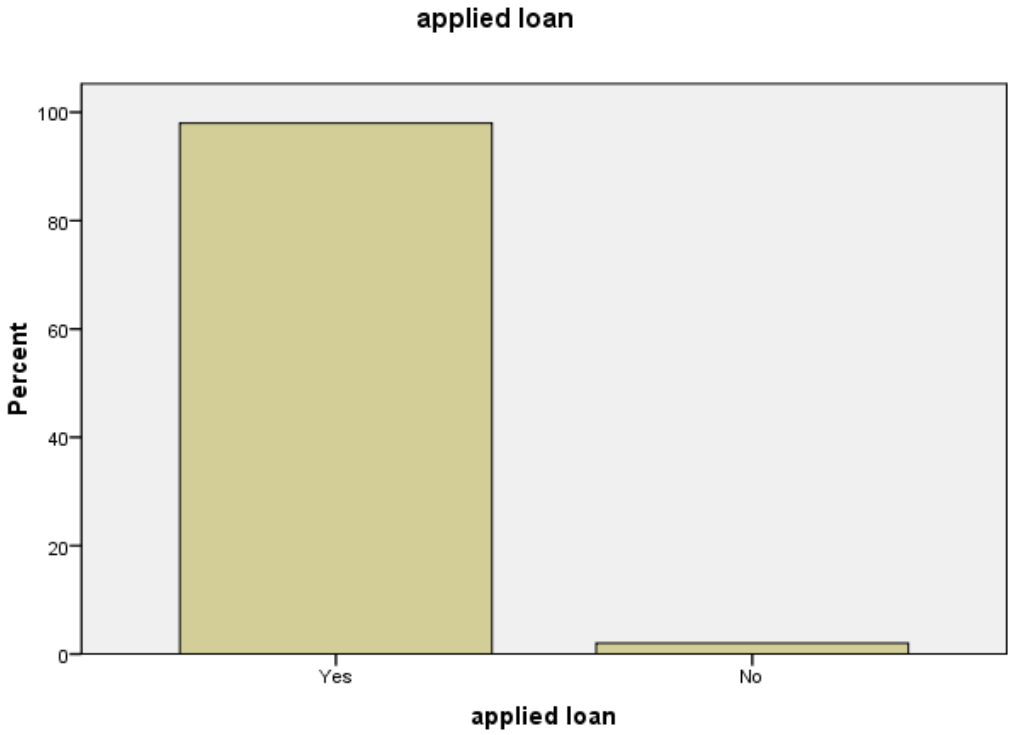
The respondents indicated the importance of debt financing, that is why 98% of SMEs were applied for loans and only 2 percent did not apply for a loan (Figure 4.4). Unfortunately it showed that only 23% used debt finance and 77% did not use debt financing (Figure 4.3)

Figure 4.3 Respondents for using Debt Financing



Source: Field data

Figure 4.4 Respondents that applied Loan



Source: Field data

4.4.2.5 Social Economic factors as constraints for SMEs' leverage level

The reasons why SMEs fail to improve their leverage level through capital structure decisions were mentioned by respondents as follows: collateral (16%), location (12%), Education level of entrepreneur (16%), Entrepreneur' experiences (21 %), profitability (23%) and others which includes firm's age, gender and firm type.

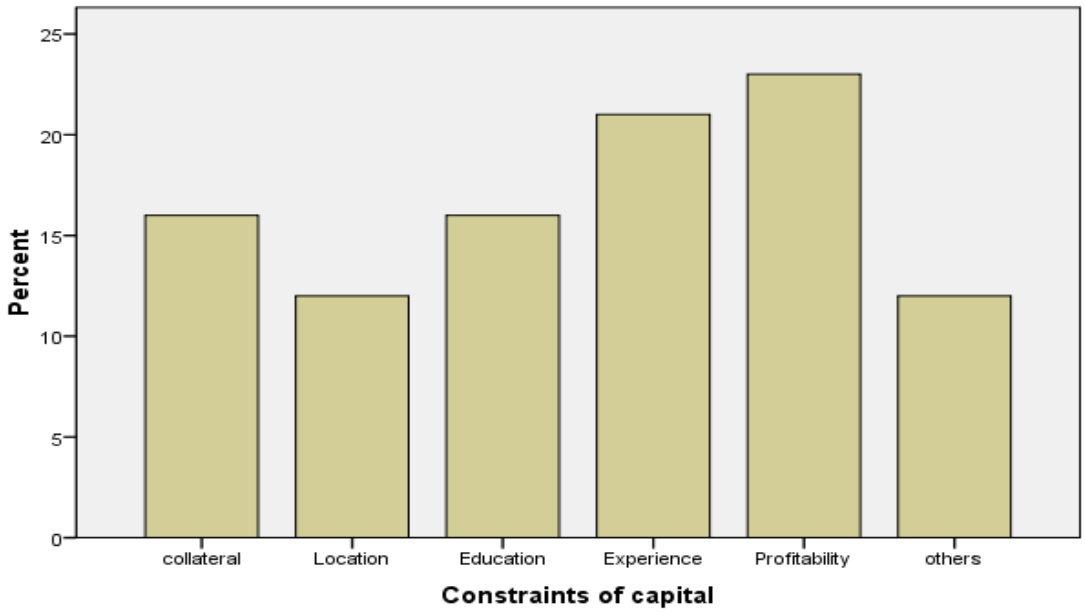
Therefore majority of SMEs' capital structure from respondents constituted equity financing and very few with certain level of leverage (Table 4.7).The decision for proportionality of capital structure these SMEs were affected by number of factors as indicated in Table 4.8 and Figure 4.5

Table 4.8: Problem faced by SMEs capital structure decision

	Constraints of capital	Frequency	Valid Percent	Cumulative Percent
	Collateral	16	16.0	16.0
	Location	12	12.0	28.0
	Education	16	16.0	44.0
	Experience	21	21.0	65.0
	Profitability	23	23.0	88.0
	Others	12	12.0	100.0
	Total	100		

Source: Field data

Figure 4.5 Problem faced by SMEs capital structure decision



Source: Field data

4.5 Factors that affect SMEs' capital decision

In this section the researcher was interested in finding out SMEs' owners and employees' views on the factors that can improve SMEs' financial leverage. From their view it shows that entrepreneur's education background, experiences, gender

and others as indicated in Table 4.9 have a lot of influence in deciding capital structure of SMEs.

Table 4.9: Factors affecting SME's capital structure decision

	Factors	Frequency	Valid percent	Cumulative percent
	Education background	82	14.33	14.33
	Experience of entrepreneur	67	11.71	26.04
	Gender	68	11.9	37.94
	Location of SME	68	11.9	49.84
	SME's collateral	62	10.84	60.68
	Age of SME	72	12.58	73.26
	Interest rate charged	79	13.81	87.07
	Profitability	74	12.93	100
	Total	572	100	

Source: Field data

The data in Table 4.9 were used to run regression analysis model because it can determine whether independent variables have significant influence to the dependent variable capital structure decision. On the other hand, the model can determine which independent variable is important than other variables. Therefore, the output information from Table 4.9 is stipulated in Table 4.10 and Table 4.11

Table 4.10: Factors affecting SME's capital structure decision

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.058	.144		.400	.690
	Education background	1.040	.045	.566	22.917	.000
	Experience of entrepreneur	1.011	.051	.499	19.958	.000
	Gender	.953	.045	.543	21.091	.000
	Location of SME	.947	.044	.515	21.439	.000
	SME's collateral	.993	.051	.462	19.453	.000
	Age of SME	.962	.036	.571	26.483	.000
	Interest rate charged	1.000	.043	.565	23.467	.000
	Profitability of firm	.956	.039	.562	24.291	.000

a. Dependent Variable: Leverage level

Source: Research results analysed, 2015

From the Table 4.10 as output of SPSS, all independent variables, that is Education background, Experience of entrepreneur, gender, location of SME, SME's collateral, age, interest rate charged by financial institutions for loan and profitability of SME make a statistically significant contribution to the prediction of capital structure decision because each of them has significance value less 5%.Thus, all have a significant value of 0.000 (Table 4.10).Therefore, both variables make a statistical significant contribution to the prediction dependent variable.

According to the finding it shows that Education background of entrepreneur is the best predictor of financial leverage level compared with other variables because it has the largest beta value which is 0.566(Table 4.10).

Table 4.11 Model summary on SMEs' capital structure decision

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.980[a]	.961	.957	.171	.961	278.587	8	91	.000

a. Predictors: (Constant), Profitability of firm, Experience of entrepreneur, Location of SME, Age of SME, SME's collateral, Education background, Interest rate charged, Gender

b. Dependent Variable: Leverage level

Source: Field analysed data

How much of the variance in capital structure decision is explained by the independent variables? Thus, Education background, Experience of entrepreneur, gender, location of SME, SME's collateral, age, interest rate charged by financial institutions for loan and profitability of SME which tell how much in the dependent variable capital structure decision is explained by the independent variable. Since R Square above is greater than 50% (0.961) as cut-off point therefore it is the best variation. (Table 4.11).

The researcher also tried to get other findings from respondents on how entrepreneur's profile and firm attributes as well as financial factors can affect capital structure decision as indicated in Table 4.12

Table 4.12: Entrepreneur's profile and Firm attributes with SME's capital structure decision

S/N	Response Item	1		2		3		4	
		N	%	N	%	N	%	N	%
1	I have enough knowledge and skill that reached to required SME's capital structure	10	10.0	20	20.0	67	67.0	3	3.0
2	The SME has owners and/or managers that have enough Managerial competency and experiences that ensure stable cash flow	5	5.0	7	7.0	66	66.0	12	12.0
3	There is no difference between education and SME's capital structure decision.	6	6.0	9	9.0	65	65.0	20	20.0
4	Lack of SME's collaterals constraints to get capital from debt financing	56	56.0	27	27.0	14	14.0	3	3.0
5	Firm' age improve SME's capital structure decision	0	0.0	52	52.0	48	48.0	0	0.0
6	High SME's profitability increase leverage level	2	2.0	38	38.0	56	56.0	4	4.0
7	Interest rate charged by financial institutions lag improvement of capital structure for SMEs.	10	10.0	69	69.0	12	12.0	9	9.0
8	Location from sources of capital constraints capital structure decision	0	0.0	46	46.0	54	54.0	0	0.0

1 = Strong agree 2= Agree 3 = Disagree 4= Strong disagree

Source: Field data

The percentages in Table 4.12 were calculated by dividing the number of ''Agree" response by the total number of responses and multiply by 100% as percentages of "Disagree" responses.

The data in Table 4.12 shows that 70% of the respondents lack enough knowledge and skill that reach to required SME's capital structure and 78% of the SME have owners and/or managers that haven't enough Managerial competency and experiences that ensure stable cash flow. 85% of the respondents said there is no difference between education and SME's capital structure decision. 83% of the respondents accepted that lack of SME's collaterals constraints to get capital from debt financing and only 48% of them agreed that firm' age improve SME's capital structure decision.81% of the respondents agreed that Interest rate charged by

financial institutions lag improvement of capital structure for SMEs. Only 48% of the respondents agreed that location from sources of capital constraints capital structure decision.

4.6 Capital structure decision in related to SMEs' financial Performance

4. 6.1 Turnover performance

The researcher was interested in knowing annual turnover performance of different small and medium enterprises for 2014. Of 100 SMEs interviewed 71(71%) indicated their sales to lie between TAS 5,000,000 and 200,000,000. About 20 (20%) indicated their sales to be less than TAS 5,000,000 and about 8 (8) their sales were in the range of TAS 200,000,000 to 800,000,000. More details are seen in Table 4.4 below

Table 4.13: Distribution of Turnover Performance of SMEs

Sales levels figures in 1,000,000	Number of Respondent	Percent	Cumulative.
Less than 5	20	20.0	20.0
Between 5-200	71	71.0	91.0
Between 200-800	8	8	99.0
More than 800	1	1.0	100
Total	100	100	-

Source: Field results 2015

Therefore, the vast majority of the respondents (71%) have sales of between TAS 5million on to 200 million per annum. Only one respondent from sample has turnover more than 800 million while 20.0% of respondents have turnover less 5milion.

Table 4.14: Responses regarding ROI and capital structure

	characteristics	Categories	Number of respondents	Percent
	Return on Investment	Low level	64	64.0
		Moderate level	30	30.0
		High level	6	6.0
	Equity in Tshs Million	Less 50	90	90.0
		Between 50 and 100	0	0.0
		Above 100	10	10.0
	Debt in Tshs million	Less than 50	12	12.0
		Between 50 and 100	8	8.0
		Above 100	2	2.0

Source: Field results 2015

The dependent variable is financial performance and the independent variables are the debt ratios for the selected SMEs in four different wards in Morogoro municipality. Measures of financial performance obtained by the ratio of Gross profit margin to total capital investments and for each SME were categorised through comparisons; all SMEs that had ROI of up to 49.9% were categorised as having low level of performance while those which had ROI between 50% and 74.9% were categorised as having moderate level of performance.

On the other hand, all SMEs that had ROI of 75% and above were categorised as having high levels of financial performance. This procedure of measuring financial performance of SMEs in this stage was also used by previous studies such as Hanks et al. (2003).The literature does not provide any cut off point for measuring financial performance of SMEs.

However, in this study, anything below 50% was considered to be low levels as it was below half. On the other hand, anything above 75% was considered to be high levels of the performance as it was above three-quarters. In same spirit, anything between 50% and 75% was considered to be moderate levels of financial

performance because it was above low levels of performance but also below high levels of financial performance.

The debt ratios include short-term debt-equity ratio and debt-asset ratio were included to examine its effects on performance. Debt-equity ratio was found for each SME's respondent by dividing capital obtained from debt financing to equity financing which include personal saving, from friend, relative, sharing with others and retained profit. For debt-asset ratio was obtained by dividing capital debt by total capital.

Therefore, data in Table 4.13 and Table 4.14 were used to run regression analysis model because it can determine whether independent variables have significant influence to the dependent variable capital structure decision. On the other hand the model can determine which independent variable is more important than other variables. Therefore, the output information from those tables is stipulated in Table 4.15 and Table 4.16.

Table 4.15: Correlation for hypothesis 9 and 10

		Financial performance	Debt -equity ratio	Debt-asset ratio
Pearson Correlation	Financial performance	1.000	.587	.583
	Debt -equity ratio	.587	1.000	.996
	Debt-asset ratio	.583	.996	1.000
Sig. (1-tailed)	Financial performance	.	.000	.000
	Debt -equity ratio	.000	.	.000
	Debt-asset ratio	.000	.000	.
N	Financial performance	100	100	100
	Debt -equity ratio	100	100	100
	Debt-asset ratio	100	100	100

Source: Research result analysed

Table 4.15 as output of SPSS, all independent variables debt-equity ratio and debt-asset ratio of SME make a statistically significant contribution to the prediction of

financial performance for SMEs because each of them has significance value less than 5%.Thus, all has significant value of 0.000(Table 4.15).Therefore, both variables make a statistical significant contribution to the prediction dependent variable. There is strong evidence to conclude that there is relationship the financial performance and debt ratios because significance value is less than 5%. On the other hand, there is strong positive linear relationship independent variables and financial performance as dependent variable (Pearson correlation is 0.587 and 0.583 in Table 4.15).

Table 4.16: Extent for Leverage on SMEs financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.440	.013		34.896	.000
	Debt -equity ratio	.348	.441	.743	.789	.432
	Debt-asset ratio	-.132	.792	-.157	-.166	.868

a. Dependent Variable: Financial performance

Source: Research result analysed

According to finding it shows that debt-equity ratio of entrepreneur is the best predictor of financial performance of SMEs compared with other variables because it has largest beta value which is 0.743 despite the fact that both of them have no significant influence (Table 4.16).

Table 4.17: Model Summary for SMEs' financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.587[a]	.344	.331	.113545	.344	25.455	2	97	.000

Source: Field data

Debt-equity ratio and debt-asset ratio which tells how much in the dependent variable financial performance is explained by the independent variables debt-equity ratio and debt-asset ratio. Since R square above is less than 50% as cut-off point therefore poor variation(R square is 0.344 in table 4.17).

Table 4.18: SMEs' capital structure decisions in related to SME's financial performance.

S/N	Response item	1		2		3		4	
		N	%	N	%	N	%	N	%
1	My SME face difficult in financial performance due to its lack of enough collateral	43	43.0	33	33.0	22	22.0	2	2.0
2	The SME can access loan easily when it has stability in sales and profit	36	36.0	38	38.0	17	17.0	9	9.0
3	Gender as influence capital structure decision has great impact to SME's financial performance	0	0.0	44	44.0	56	56.0	0	0.0
4	Firm' s attributes determine financial performance for SMEs	41	41.0	55	55.0	4	4.0	0	0.0
5	Entrepreneur's profile provide opportunity to access loan that increase SME's capital structure decision and value	44	44.0	51	51.0	3	3.0	2	2.0
6	Socio economic factors are determinants of capital structure and capital structure decisions that improve SME's financial performance.	56	56.0	43	43.0	1	1.0	0	0.0

Source: Field data

In addition to that, Table 4.18 shows the entrepreneurs' responses which indicated to what extent SMEs' capital structure decisions are related to SME's financial performance.

SMEs face difficulties in financial performance due to its lack of enough collateral (76%) and 74% of respondents accepted that SME can access loan easily when it has stability in sales and profit. However, gender cannot influence capital structure decision; it has great impact to SME's financial performance as responded by 56%. On the other hand they accepted by 96% that firm's attributes determine financial performance for SMEs. Generally, majority of entrepreneurs agreed that entrepreneur's profile provide opportunity to access loan that increases SME's capital structure decision and value (95%) and they agreed by 99% that socio economic factors are determinants of capital structure and capital structure decisions that improve SME's financial performance.

4.7 Testing of Hypothesis

From the objective of the study, 10 hypotheses were developed to find out how and to what extent socio economic factors have impacts on the SMEs' capital structure decision and financial performance. Social economic factors were measured using entrepreneur's characteristics and SME's characteristics while capital structure decision on leverage was measured by debt ratios and SME's financial performance was measured by return on investment.

The researcher found that correlational analysis and regression model were appropriate ways to analyse the nine hypotheses of the data for better results. Pearson Correlation expected to describe the strength and direction of the linear relationship between the variables. Pearson correlation is used when you want to explore the strength of the relationship between two continuous variables. This gives you an indication of both the direction (positive or negative) and the strength of the relationship. A positive correlation indicates that as one variable increases, so does the other. A negative correlation indicates that as one variable increases, the other decreases.

Table 4.19: Strength of correlation to SMEs' capital structure decision

		Leverage level
Pearson Correlation	Leverage level	1.000
	Education background	.203
	Experience of entrepreneur	.018
	Gender	.167
	Location of SME	.203
	SME's collateral	.051
	Age of SME	.633
	Interest rate charged	-.205
	Performance of firm	.285

Source: Research result analysed

Multiple regression is a more sophisticated extension of correlation and is used when you want to explore the predictive ability of a set of independent variables on one continuous dependent measure. From those models the researcher determines whether there is significant relationship between the variables by considering significant level between two variables, independent and dependent variable. If the level of significance from the table which results from research findings is greater that calculated value (5% = 0.05), the alternative hypothesis is rejected which implies that the null hypothesis is accepted, otherwise alternative hypothesis is accepted.

H1: Entrepreneurs and Employees with less Education background find difficulty to influence optimum SMEs capital structure decision.

Table 4.10, indicates that level of significance between entrepreneur and Education background is .000 which is less than 5%. On the other hand, Pearson correlation between the variables is 0.203 (Table 4.19). This implies that there is small positive correlation between education background and SME's capital structure decision. Therefore, entrepreneur with higher education background, are more likely to improve the capital structure decisions than those with low education background.

H2: Less or no work experience for entrepreneur cannot influence optimum SMEs capital structure decision.

Pearson correlation between the variables experience for entrepreneur and SMEs capital structure decision is 0.018(Table 4.19). This implies that there is small positive correlation two variables. A level of significance between experience of entrepreneur and SME's capital structure decision is .000 which is less than 5%.(Table 4.10).Therefore, the hypothesis is accepted, less or no work experience for entrepreneur find it difficult to achieve optimum SMEs capital structure decision.

H3: There is no significant difference between gender of entrepreneurs and SMEs capital structure decision

Table 4.20 Gender descriptive data in leverage level

	Gender of entrepreneur	N	Mean	Std. Deviation	Std. Error Mean
Leverage level	MALE	55	5.67	.862	.116
	FEMALE	45	5.49	.787	.117

Source: Field data

An independent-sample-test will tell you whether there is a statistically significant difference in the mean scores for the two groups (that is, whether males and females differ significantly in terms of their capital structure decision). Independent T- test revealed that, there was no significant gender difference for capital structure decision improvement (Appendix III).The reason is that the significance level for Levene's test is .66. This is greater than the cut-off of .05. This means that the assumption of equal variances has not been violated; therefore, the report t-value, is used from the one provided in the first line of the table.(Appendix III) which is .273 and it is larger than 5%.Therefore, being female or male has no any significant influence in improving capital structure of SMEs.

H4: There positive relation between location of SMEs and SMEs capital structure decision and leverage level improvement.

An evidence from Table 4.7, there is significant relationship between location of SME and SME's capital structure decision because level of significance between two variables is .000 which is less than 5%(Table 4.10). Pearson correlation between two variables is 0.203. This implies that there is small positive correlation between location of SME and SME's capital structure decision.(Table 4.19).The hypothesis is accepted.

H5: There is a positive significant relationship between Collaterals and capital structure decision

The Pearson correlation between the Collaterals and capital structure decision is 0.051which indicates that there is very small positive relationship of two variables.

But relationship is significant because level of significance is .000 (Table 4.10) Therefore, the hypothesis is supported with the results from findings

H6: Younger SMEs are more likely to be credit constrained for capital structure improvement than older SMEs

The Pearson correlation between the age of SME and capital structure decision is 0.633 which indicates that there is very strong positive relationship of two variables (Table 4.19).The relationship of two variables is also significant because the level of significance is .000 (Table 4.10). Therefore, the hypothesis is supported with results.

H7: Interest rates charged by financial institutions can influence SMEs' capital structure decision

Evidence from table 4.10, there is significant relationship between interest charged of SME by financial institutions and SME's capital structure decision because the level of significance between two variables is .000 which is less than 5%. Pearson correlation between two variables is -0.205. This implies that there is small negative correlation between interest charged by SME and SME's capital structure decision (Table 4.19).The hypothesis is accepted with research findings.

H8: Low profitability SMEs has limited SMEs' capital structure decision improvement.

Evidence from Table 4.10, there is significant relationship between profit of SME and SME's capital structure decision because level of significance between two variables is .000 which is less than 5% (Table 4.10). Pearson correlation between two variables is 0.285. This implies that there is small positive correlation between SME' performance and SME's capital structure decision (Table 4.19).The hypothesis is accepted.

H9: There is positive relationship between SMEs' debt-equity ratio and financial performance.

The Pearson correlation between the SMEs' debt-equity ratio and financial performance is 0.567 which indicates that there is strong positive relationship of two variables. On the other hand, relationship is significant because level of significance is .000 (Table 4.15). Therefore, the hypothesis is accepted with results from research findings.

H10: There is positive relationship between SMEs' debt-asset ratio and financial performance.

Evidence from Table 4.15, there is significant relationship between SMEs' debt-asset ratio and financial performance because level of significance between two variables is .000 which is less than 5%. Pearson correlation between two variables is 0.583. This implies that there is strong positive correlation between SMEs' debt-asset ratio and financial performance. (Table 4.15).The hypothesis is supported from results.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.1 Introduction

This chapter covers interpretation and discussion of finding based on the study objectives. The study objectives are as follows: to assess the capital structure and capital structure decision of SMEs in Tanzania; to examine the factors that affect SMEs' capital structure decision; and to assess the impact of the SMEs' capital structure decisions on financial performance.

5.2Recapitulation of the Research Objectives

5.2.1 Capital structure and capital structure decision of SMEs

In this objective the researcher intended to investigate the proportionality of SMEs' capital and constraints facing in decision regarding leverage improvements. The research findings from primary data of SMEs indicated that Capital structures for SMEs(Figure 4.2).75% were financed by only equity financing and only 25% of SMEs tried to improve the leverage level by financing through both equity and debt finance. 65% of the SMEs did get from personal saving, 29% of them got from friends and relatives that constitute equity financing. This implies that majority of respondents who participated in the study were financed from personal saving as source of capital (Figure 4.1). The study also was supported by Pretorius and Shaw (2008) who observed that SMEs rely on internal finance since they can't afford external finance easily, only prioritised source become internal finance but still internal finance is inadequate for SMEs' development and profitability. Most SMEs' failures to access debt financing result in an inadequate capital structure. The study by Demirquc - Kunt et al. (2006) pointed out that the main source of external financing for SMEs is equity and debt.

The respondents indicated the importance of debt financing, that is, why 98% of SMEs applied for loans and only 2 percent did not apply for loans (Figure 4.4). Unfortunately it showed that only 23% used debt finance and 77% did not use debt

financing (Figure 4.3). These issues of SMEs' capital structure and capital structure decision were supported by the previous study by Hussain et al. (2006) who maintained that once the SMEs internal source of finance was found to be insufficient to meet the business's objective, these firms looked for an external source of finance to fund their business investment, reach their growth potential and for facilitating new start-ups businesses. Lack of ability to raise finance can limit the cash flow and block the business survival.

Having access to external finance is one of the important issues for SMEs' capital structure improvement but they fail to improve their leverage level through capital structure decisions because of lack of socio economic factors such as collateral, location, education level of entrepreneur, entrepreneur's experiences, profitability and others which include firm's age, gender and firm type (Figure 4.5).

5.2.2 Factors that affect SMEs' capital structure decision

Correlation analysis and regression model as well as statistical T-test were done and revealed that, there were significant relationship between socio economic factors and SMEs' capital structure decision (Table 4.10).On the other hand there were no significant gender difference for capital structure decision improvement (Appendix III).

The study revealed that entrepreneurs' profile such as educational background and experiences have significant influences in improving capital structure of SMEs. But gender was not a predictor of the leverage level improvement; regardless other previous studies showed that women were more risk averse than men and most of them were affected by gender discrimination, networking and courage in decision regarding financial leverage (Coleman & Cohn, 2003).

The study also revealed that firm's characteristics as indicated to the hypotheses have significant influences in improving capital structure decision. Findings indicated that there is positive significant relationship between location, collaterals, SME's age, SME's profitability and interest rate charged with capital structure decision.

Although Hall, Hutchinson & Michaelas (2004) found that age has a positive impact on a debt level, the effect is negligible.

On the other hand, the finding of the study is supported by some previous studies. For example, Berger and Udell (2002) found that geographic proximity to banks and customers has a relationship on a firm's use of leverage. Banks that are geographically closer to their customer firms are better able to use soft qualitative information about their customers' credit quality. Barbosa and Moraes (2004) argued that SMEs owners/entrepreneur that invest heavily in tangible assets tend to have higher financial leverage since they can borrow at lower interest rates if their debt is secured with such assets. According to Chandler (2009:10) the longer a firm exists and the bigger it is, the more it signals that it can weather tough economic conditions. Furthermore, by staying in business, a firm can signal that it does not adopt opportunistic behaviour.

The positive correlation between profitability and leverage goes contrary for pecking order theory. Authors such as Michaelas et al. (1999); Myers (1984); Cassar and Holmes (2003); and Voulgaris et al. (2004) mentioned that SMEs are strictly following the Pecking Order theory. The results can be interpreted that small business owners prefer using internal sources rather than external sources. Managers tend to use retained earnings as much as possible, and when additional finance is needed they raise debt

Therefore, if small firms use internally generated funds as a first source, then those firms, which use external finance, are the ones with lower level of profit. According to the results, it can be concluded that a firm with a high level of profit will accordingly have access to a higher level of retained earnings hence they will chance at borrowing more because lenders want assurance that the loan will be paid back accordingly.

5.2.3 The effect of SMEs' capital structure decision on financial performance

Researcher has concentrated on data presentation, data analysis, ratio analysis, and hypothesis testing. Correlation analysis and regression analysis showed that there is a

positive relationship between capital structure variables (debt-equity and debt-asset ratios and financial performance variable. So, hypotheses H9 and H10 are accepted and regression analysis showed that each of capital structure variables has a different significant level and this analysis found that capital structure has a significant impact on financial performance of SMEs. In other words, increasing the amount of debt ratios in the firms' capital structure is significantly more likely to positively influence their market-to-book value for SMEs.

The findings of this specific objective of the study are supported by findings of one similar study conducted in the department of Financial Management, University of Jaffna, Sri Lanka byNirajini and Priya (2013) who reported that capital structure choice has significant positive relation with SMEs' financial performance.

On the other hand, the positive significant relationship between debts with ROI is consistent with the findings of Philips and Sipahioglu (2004) and Grossman and Hart (1986), which indicate that higher levels of debt in the firm's capital structure will be directly, associated with higher performance levels. The higher performance level might be contributed by tax shield of interest and disciplinary role imposed by higher long term debt which reduces agency cost. However, the effect is short term in nature since the lagged long term debt variables do not significantly influence ROA.

CHAPTER SIX

SUMMARY, CONCLUSION AND POLICY IMPLICATION

This section presents summary, conclusion and recommendations made to the different individuals and institutions which were found to have impact on capital structure improvement and development of the SMEs in the study area. The section is divided into six major sections which are also divided into sub-sections. The major section are as follows: summary which is presented in section 6.1, conclusion which is presented in section 6.2, policy implication which is presented in section 6.3, recommendations to the owners of SMEs which is presented in section 6.4,, recommendation to financial institutions which is presented in section 6.5, and areas for further studies which is presented in section 6.6.

6.1 Summary of the major findings

Analysis and discussion from above two chapters shows the following:

There were four sources of capital that were used to establish SMEs as follows: capital from personal saving; capital from other projects that were held by owners; capital from friends and relatives; capital from bank and other financial institutions such as FINCA, pride and vision. This implies that majority of respondents who participated in the study were financed from personal savings as source of capital. It was further noted that most of SMEs were established from unreliable sources of capital.

Most of Small and Medium Enterprises in Morogoro municipality were unleveraged because finding from the field showed that majority of them were financed by equity. They face difficulties to improve leverage level due to socio economic constraints caused by entrepreneur's profile and SMEs' attributes and interest rates charged by financial institutions despite the fact that they wanted to increase level,

Six factors were found to have significant influence on SMEs' capital structure decision in the following ascending order of strength: age of SMEs; profitability; level of education of entrepreneurs; location of SMEs; experience of entrepreneur,

and SME's collaterals. They also found to have direct relationship with SMEs' capital structure decision.

Levels of interest rates charged by financial institutions to SMEs were found to be inversely correlated with capital structure decision regarding leverage.

There is direct significant relationship between SME's capital structure decision and financial performance.

6.2 Conclusions

Capital structure is a topic of great interest to academics, business and practitioners. Small and Medium Enterprises depend much on opportunities that improve capital structure for the start- up and expand their businesses. However, a number of studies in the past have mentioned that capital structure has been a problem in the sector of Small and Medium Enterprises.

In spite of all efforts done, the SME sector is still facing a major constraint in improving capital structure decision. This limits their capacity to survive, increase capacity, upgrade its technologies and even in many cases, expand their market share and improve management or raise productivity and eventually increase SME's income.

Accordingly, this study assessed the impact of socioeconomic factors on capital structure decisions of SMEs in Tanzania and determined the extent to which their capital structure decisions affect their SMEs' performance, taking Morogoro municipality as a study case.

An overview of the literature, suggested a number of socio economic factors that are likely to be associated with capital structure decision. These factors identified were educational background, gender and experience in entrepreneurship which constitutes entrepreneur's profile. Location, collateral, firm's age, profitability as SMEs' attributes and interest rates charged and debt ratios. From these factors, ten hypotheses were derived for testing based on responses to questionnaires and

analysis done using SPSS computer program-specifically correlational and regression analysis test as shown in chapter four. The conclusion drawn is as follows:

All factors, that is, educational background, gender, and experience in entrepreneurship constituted entrepreneur's profile. Location, collateral, firm's age, profitability as SMEs' attributes and interest rates charged and debt ratios have significance influence on capital structure decision and financial performance of Small and Medium Enterprises. It was observed that age of the SMEs has a strong influence in improving capital structure; and capital structure decision and debt ratios have significant positive influence on financial performance of the SMEs. Not only these but also it was observed that there are some other factors mentioned above that can influence capital structure decision to some extent

6.3 Policy level recommendations

The study has contributed to our knowledge on the series of factors associated with the SMEs' characteristics' impacts and entrepreneur' profile on capital structure decision from different external sources of financing in Tanzania. The results demonstrate that there is interdependence and significant relationship between the SMEs' attributes (location, age and collateral) and capital structure decision by SMEs as entrepreneur' profile (Educational background and experience). The study recommends the following: Firstly, the Government should formulate policies that will make sources of financing (commercial banks, finance companies, micro finance institutions and other sources) relax their restrictive regulations and operations which discourage borrowing and offer more credit facilities for firms especially SMEs for improvement of capital structure. Secondly, the government should support the SMEs sector by guaranteeing from financial institutions to SMEs. Third, the government through central bank should either create strategies to stimulate commercial banks to increase their lending towards SMEs sector; or. Fourth, the government has to authorise special capital from Central Bank to Commercial Banks purposely to lend SMEs since commercial banks are the giant player in the lending industry. Fifth, the government should establish a bank to deal with debt financing for SMEs sector

Lastly, the government through municipality and other Government agencies such as SIDO can organise training to SMEs. Awareness should be created for the training programme through advertisements in local and national media. The reason is that most of the SMEs were found to possess low levels of education.

6. 4 Recommendations to SMEs' owners

It is necessary for SMEs' owners to have either business or personal assets that can be used as collateral when applying for credit facilities from financial institutions. For SMEs to survive and grow debt finance is very important for improving capital structure decision and collateral is very important for leverage level. This implies that SMEs without collateral one will find it difficult to obtain capital structure debt finance from financial institutions.

It is also recommended that, all SMEs are encouraged to form and join the business association since it will enable them to share information concerning financial services and other business information. Hence, improve equity finance.

6. 5 Recommendations to Financial institutions

Financial institutions are advised to review lending policies and procedures in order to reduce to affordable interest rates and eliminate unnecessary bureaucratic procedures to borrowers which in turn will reduce waste of time in processing application for credit. This will have advantages both to borrowers and the financial institutions because more SME's owners will be able to get their credit easily to improve capital structure while the financial institutions will get more borrowers and hence benefit from the interest.

6.6 Areas for Further Studies

Reviewing on capital structure literatures clearly show that high gearing may result in bankruptcy. Therefore, the study's sample is likely to exclude the highly gearing SMEs. Further studies can be done with the aim of adding more depending indicators, and also including highly gearing firms into the sample.

The study assessed the impact of socio-economic factors on SMEs' capital structure decision. In assessing factors that affect SMEs' capital structure decision, different

groups of respondents were involved. These include: entrepreneur's owners/managers, financial institutions, customers of targeted SMEs and other development partners. The result of this study based on information collected from SMEs' owners/managers and few from financial institutions. Further studies should consider other groups of respondents in assessing objectives of this study. This will help in giving more reliable finding than basing only on two groups of respondents.

The study used only two ratios; short-term debt-equity ratio and debt-asset ratio to determine the relationship between capital structure decision and financial performance. The ratios were considered as total debt, therefore for more reliable finding, further studies should consider short-term debt ratio, long-term debt ratio, total debt ratio, and trade credit to capital ratio to determine the significant relation influence between capital structure decision and financial performance.

The sample respondents were taken only from urban area, the study suggest further studies that can use respondents from both urban and rural areas to get reliable information especially on how location of SMEs can influence capital structure decision and financial performance for SMEs.

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APPENDICES

Appendix I: Extent of effect on capital structure decision from other stakeholders

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.250	2.305		1.844	.207
	Education background	.250	.750	.286	.333	.771
	Gender	-9.513E-16	.612	.000	.000	1.000
	Experience	.750	.750	.859	1.000	.423
	Location	.750	.559	.919	1.342	.312
	Age of SME	-7.859E-16	.935	.000	.000	1.000
	SME's collateral	-.250	.559	-.306	-.447	.698
	SME's profitability	-.750	1.250	-.919	-.600	.609

a. Dependent Variable: Leverage level

Appendix II: Pearson Correlations results for stakeholders of SMEs

		Leverage level
Pearson Correlation	Leverage level	1.000
	Education background	.218
	Gender	-.408
	Experience	.218
	Location	.102
	Age of SME	.500
	SME's collateral	.102
	SME's profitability	-.408

Appendix III: Independent Samples Test results

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Leverage level	Equal variances assumed	.188	.666	1.103	98	.273	.184	.167	-.147	.515
	Equal variances not assumed			1.113	96.786	.268	.184	.165	-.144	.512

Appendix IV: Questionnaire for Owners or managers of SMEs

Dear respondent,

This questionnaires aimed at collecting information concerning of impact of Socio-Economic factors on SMEs' Capital Structure decision in Tanzania which is part of the requirement for the degree of Master of science in Accounting and Finance at Mzumbe University.

Please note that the information to be collected will be treated with utmost confidentiality and used solely for academic purposes indicated hereon, thank you for your assistance and supporting us.

Thank you

General person particulars

1. Gender…….. 2. Age…….....

3. Marital status……. 4. Nationality……. …….

5. Religion…… …… 6. Occupation……

SMEs' general particulars

1. SME's registered name……
2. SME's types…….
3. Business' age……
4. Types of service offered……
5. Location of SME(ward) …….
6. Number of customers served per day……
7. Number of employee……

In the following question put tick to the correct answer.

1. Type of activity your enterprise dealing with :(Please tick appropriate answer)
   i. Manufacturing
   ii. Service
   iii. Commerce and trade

2. What is the form of ownership of your enterprise if any (Please tick appropriate answer)

(a) Sole owner
(b) Partnership
(c) Company
(d) Cooperative
(e) Other please specify ……

3. What is the source of capital for your SME?

i. Personal saving
ii. From friend, relative, sharing with others
iii. From bank
iv. From other financial institution such as FINCA, pride, and vision

4. What is capital structure of your SME?

i. Only equity
ii. Only debt
iii. Both equity and debt

5. What is your age group? (Please tick appropriate answer)

(a).Age between 18 – 30 year
(b).Age between 31 – 40 year
(c).Age between 41 – 50 year
(d).Age above 51 year

6. What is your highest education level?

i. Not attended
ii. Primary school
iii. Secondary school
iv. Certificate/Diploma
v. Bachelor's degree
vi. Master's degree
vii. Other level(s)? (specify)

7. What is your experience in the entrepreneur business in years?

i) 5 years or less
ii) 6 to 10 years
iii) 11 to 15 years
iv) 16 to 20 years
v) At least 20 years

8. Where is your SME located?

i) Far away from financial institutions
ii) Close to the financial institutions

9. What is your current annual turnover for year 2014 in Tshs? (Please tick appropriate answer)

i. Less than 5,000,000
ii. Between 5,000,000 – 200,000,000
iii. Between 200,000,000 – 800,000,000
iv. More than 800,000,000

10.Have you ever applied for a loan from any financial institution or any individual lender?(No matter you got it or not)

i) Yes
ii) No

11. Have you ever obtained a loan from any financial institution or any individual lender?

i. Yes
ii. No

12. Are your financial statement being audited by any external auditor?

i) Yes
ii) No
iii) Not always
iv) I don't prepare financial statements

Fill the gap where necessary

13. My SME's capital has

i. Equity of TZS ……
ii. Debt of TZS …….

14. The cost of goods sold per year is TZS …….

15. The value of fixed assets that can as collateral is TZS ……

16. Does SME has own employees

Yes/No < delete whichever is not right>

17. If the answer in 16. Above is yes, how many are they?. ……..

18. Mention any factors that you think it is hindrance for SMEs in accessing financial services for improving SMEs' capital structure decision

……
……
……
……
……

19. Mention any advice that you think it help to improve SMEs' capital structure decision

……
……
……
……
……..

Other questionnaire for of owner/manager's Profile and SME's attributes in related to SME's capital structure decision.

In the following question put tick to the correct answer. Where

1 = Strong agree 2 = Agree

3 = Disagree 4 = Strong disagree

Socio economic factors in related to SME's capital structure decision

S/N	Question	1	2	3	4
1	I have enough knowledge and skill that reached to required SME's capital structure				
2	The SME has owners and/or managers that have enough Managerial competency and experiences that ensure stable cash flow				
3	There is no difference between education and SME's capital structure decision.				
4	Lack of SME's collaterals constraints to get capital from debt financing				
5	Firm' age improve SME's capital structure decision				
6	High SME's profitability increase leverage level				
7	Interest rate charged by financial institutions lag improvement of capital structure for SMEs.				
8	Location from sources of capital constraints capital structure decision				

Gender

S/N	Question	1	2	3	4
1	I am very risk averse				
2	I have been facing sexual harassment in obtaining loan				
3	I fear to lose my collateral if business fails				
4	I have small amount of money that cannot fulfill my SME's capital				
5	I have no large network to access loan				

Questionnaire for SMEs' capital structure decisions in related to SME's financial performance.

S/N	Question	1	2	3	4
1	My SME face difficult in financial performance due to its lack of enough collateral				
2	The SME can access loan easily when it has stability in sales and profit				
3	Gender as influence capital structure decision has great impact to SME's financial performance				
4	Firm' s attributes determine financial performance for SMEs				
5	Entrepreneur's profile provide opportunity to access loan that increase SME's capital structure decision and value				
6	Socio economic factors are determinants of capital structure and capital structure decisions that improves SME's financial performance.				

Appendix V: (Translated Part)

Dodoso kwa wamiliki/mameneja wa biashara(ujasiriamali) ndogo au za kati
CHUO KIKUU CHA MZUMBE

Ndugu mfanya biashara, anayekupatia dodoso hii ni mwanafunzi Chuo Kikuu Mzumbe cha Tanzania katika mafunzo ya shahada ya uzamili ya sayansi katika Uhasibu na Fedha. Nia ya dodoso ni kukusanya taarifa ili kufanya utafiti juu ya kukadria visababishi vya kijamii na kiuchumi zinavyoweza kusababisha maamuzi ya mfumo wa mtaji katika ujasiliamali wa mdogo au kati na katika kukuzabiashara ndogo au za kati / wajasiliamali nchini Tanzania.

Hivyo kama moja wapo wa Tasnia hii ya biashara unaombwa kutoa maoni yako juu ya utafiti huu, ili kuchangia sekta ya elimu ya juu nchini.
Tafadhali / Habari utakazotoa zitahifadhiwa kwa usiri mkubwa na Chuo Kikuu Mzumbe cha Tanzania na zitatumika kwa matumizi ya takwimu tu.
Taarifa zinazomhusu mjasiriamali

1. Jinsia……. 2. Umri…….....
3. Hali ya doa …… 4. Utaifa……. ……
5. Dini…… …… 6. Kazi…….

Habari za ujasilimali kwa ujumla

1. Jina la biashara yako……..
2. Aina ya ujasliamali……
3. Umri wa biashara……
4. Aina ya huduma zinazotolewa……
5. Sehemu ilipo(kata) ……..
6. Idadi ya wateja kwa siku……
7. Idadi ya wafanyakazi ……..

Weka vema katika jibu ambalo unadhani in sahihi..

1. Tafadhari weka vema aina ya kazi unayojishurisha katika ujasilia mali wako :
   i. Uzalishaji

ii. Kutoa huduma

iii. biashara ya jumla au rejareja

2. Tafadhari weka vema ikionyesha aina ya mfumo wa umiliki wa ujasilia mali wako/yenu.

i. Pekee/Ya kifamilia

ii. Ya pamoja/marafiki

iii. Ushirika/chama

iv. Mwingine tafadhari taja ……

3. Nini chanzo cha mtaji wa ujasiliamali huu? (Tafadhali weka vema)

i. Kwangu mwenyewe

ii. Rafiki, ndugu, kushirikiana na wengine

iii. Mkopo kutoka benki

iv. Mkopo kutoka taasisi nyingine za kifedha kama finca, pride, and vision

4. Taja mfumo wa mtaji wa ujasiliamali wako(Tafadhali weka vema)

iv. Kwangu tu/ Hisa

v. Mkopo tu

vi. Kwangu/ Hisa na mkopo

5. Upo katika kundi lipi kiumri? (Tafadhali weka vema)

(a).Kati ya miaka 18 – 30

(b) Kati ya miaka 31 – 40

(c).Kati ya miaka 41 – 50

(d) Juu ya miaka 50

6. .Nini kiwango chako cha Elimu (Tafadhali weka vema)

viii. Hukusoma

ix. Shule ya msingi

x. Shule ya Seckondari

xi. Cheti/Diploma

xii. Shahada ya kwanza

xiii. Shahada ya uzamili

xiv. Kiwango kingine (taja)

7. Una uzoefu gani (miaka) katika shughuli za ujasiriamali?

vi) Miaka isiyozidi mitano

vii) Miaka 6-10

viii) Miaka 11-15

ix) Miaka 16-20

x) Zaidi ya miaka 20.

8. Biashara yako iko eneo gani?

iii) Mbali na taasis za kifedha

iv) Karibu na taasis za kifedha

9. Ni lipi kati ya makundi yafuatayo huonyesha makadirio ya mapato yako kwa mwaka 2014 ni kiasi Tshs?

i) Chini ya 5,000,000

ii) Katikakati 5,000,000 – 200,000,000

iii) Katikati 200,000,000 – 800,000,000

iv) Zaidi 800,000,000

10.Umeshawahi kuomba mkopo kutoka kwenye shirika lolote la kifedha au hata mtu binafsi

iii) Ndiyo

iv) Hapana

11.Umeshawahi kupata mkopo kutoka kwenye shirika lolote la kifedha au hata kwa mkopeshaji binafsi

i) Ndiyo

ii) Hapana

12.Taarifa za fedha za biashara yako zinakaguliwa na wakaguzi wan je?

v) Ndiyo

vi) Hapana

vii) Mara chache

viii) Siandai taarifa za kifedha

Jibu kwa kujaza nafasi zilizo wazi

13. Ujasiriamali wangu una mtaji wa

iii. Mwenyewe/Hisa ya TZS……...

iv. Mkopo wa TZS …….

14. Taja makadirio ya gharama za uzalishaji kwa mwaka TZS …….

15. Taja rasilimali mali zako ambazo zinaweza kutumika kama dhamana TZS ……

16. Biashara yako inawafanyakazi wa kudumu. (Tafadhali weka vema)

i) Ndiyo

ii) Hapana

17. Kama jibu la swali 16 ni ndiyo, wako wangapi?.

……..

18.Taja mambo mengine ambayo unadhani yanachangia katika kuzuia wafajasiliamali wadogo na kati wasipate huduma za kifedha kuimarisha mitaji yao.

……

……

……

……

……

19.Toa ushauri wowote ambao unadhani utasaidia katika kuboresha mfumo wa mitaji na uboreshaji wa maendeleo ya kifedha kwa wajasiliamali wadogo na kati.

……
……
……
……
……

Appendix VI: Dodoso lingine linalo onyesha uhusiano kati ya mjasiriamali na maamuzi ya mfumo wa mtaji.

Jibu maswali yafuatayo

1 = Hakika nakubali 2 = Nakubali 3 = Sikubali 4= Hakika sikubali

Elimu , mahali & ujuzi wa kiungozi

S/N	Question	1	2	3	4
1	Nina maarifa na ujuzi wa kutosha unaoniwezesha kufikia mfumo wa mtaji unahitajika.				
2	Wamiliki na mameneja wa ujasiriamali wanaemaarifa na ujuzi kiongozi na uzoefu wa kifedha wanaohakikisha mzunguko mzuri wa fedha.				
3	Hakuna uhusiano wowote kati ya elimu na maamuzi ya mfumo mzuri wa mtaji.				
4	Ukosefu wa amana ni kikwazo cha kupata mtaji katika ujasiriamali kwa njia ya mkopo..				
5	Umri wa ujasiriamali unaboresha maamuzi yanayohusu mfumo mzuri wa mtaji				
6	Faida kubwa ya ujasiriamali inaongeza mfumo wa mtaji unatokana na mkopo				
7	Riba kubwa inayotolewa na makampuni ya kifedha inarudisha nyuma uboreshaji wa mfumo wa mtaji				
8	Umbali kutoka vyanzo vya mapato unachangia kutokuwa na mfumo mzuri wa mtaji				

Jinsia

S/N	Question	1	2	3	4
1	Nina ungalifu sana katika kutafuta mfumo mzuri wa mtaji				
2	Huwa nakumbana sana na unyanyasaji wa kijinsia				
3	Naogopa kupoteza amana zangu biashara ikifa				
4	Nina kiasi kidogo sana kisicho weza kukidhi mtaji wa ujasiriamali wangu				
5	Sina mtandao mkubwa unaoniwezesha kukopa ili kuimalisha mtaji				

Appendix VII: Dodoso kuhusu uhusiano kati ya mfumo wa mtaji na mafanikio ya kifedha katika ujasiliamali.

S/N	Question	1	2	3	4
1	Ninakumbana na vikwazo vingi katika ujasiriamali ili kufanikiwa kifedha kwa sababu sina amana za kutosha				
2	Ujasiriamali unaweza kupata mkopo kwa urahisi kama ina mtiririko mzuri katika mauzo na faida				
3	Jinsia inasaidia katika maamuzi ya mfumo mzuri wa mtaji unaowezesha kupata mafanikio ya ujasiriamali kifedha				
4	Namna ujasiriamali ulivyojengwa inaongeza mafanikio ya ujasiriamali kifedha				
5	Sifa ya mjasiriamali inatoa nafasi ya upatikana ya mkopo ambao unaboresha uamuzi wa mfumo wa mtaji na mafanikio ya ujasiriamali.				
6	Sababu za kijamii na kiuchumi ndivyo vigezo vya mfumo wa mataji na maamuzi ya mfumo huo ambao unaimarisha mafanikio ya kifedha katika ujasiliamali.				

Appendix VIII: Structured interview for management of financial institutions

General person particulars

1. Gender…….. 2. Age…….....

3. Marital status……. 4. Nationality……. …….

6. Department……

Answer the following

1. Name of your organisation …….

2. The permanent address of your organisation …….

3. Years of Establishment……

4. What do you think are the main source of SMEs' capital to finance their business?(Please tick on the appropriate several answers possible)

i. Equity
ii. Debt
iii. Both

5. Where do they get those sources of finance (fill the gaps)

i. _____
ii. _____
iii. _____
iv. _____

6. What is the major products /services) that your organisation offers to SMEs, (Please tick on the appropriate several answers possible)

a) Short term loan less than one year

b) Long term loan over one year

c) Saving

d) Training

e) Industrial hire-purchase for asset

f) Letter of credit

h) Trust receipts (Safe keeping of documents)

i) Export credit refinancing (ECR)

J) Others, please specify.

7. Are the criterion(s) for obtaining your services easily met by the SMEs?(Please tick appropriate answer)

i. Yes

ii. No

8. How does your organisation rank small and medium enterprises (SMEs) in the Provision of loan? (Tick to the appropriate situation)

(a) First priority

(b) Second priority

(c) Third priority

(d) Neither of the above

9. What is interest rate offered by your organisation to Small and Medium Enterprises/ Entrepreneurs……..

Is it a flat rate? (Please tick appropriate answer)

(a) Yes

(b) No

10.. In order to get a loan facility for capital structure improvement, it is argued that the SME business owners must have collateral what type of collateral is the borrower required to offer?

(a)……

(b)……..

(c)…….

11. What do you think are the main factors that prevent entrepreneurs/ SMEs operators to fund for their capital from your Organisation?

(a)……..

(b)……..

(c)……

12. What strategies need to be adopted by your organisation to facilitate SMEs operators or entrepreneurs to qualify for loans to improve their capital?

(a)……..

(b)…….

Thank you for your cooperation

Appendix IX: Structured interview for management of SIDO

General person particulars

1. Gender…….. 2. Age…….....

3. Marital status……. 4. Nationality……. …….

5. Religion…… …… 6. Department……

1. How do you rank level of knowledge and skills about SMEs in your region?

i. Low
ii. Moderate
iii. High

2. How do you assess levels of performance of different SMEs in your region in terms of profit they make?

iv. Low
v. Medium
vi. Large

3. How do you rank most of SMEs in terms of their size your region?

vii. Low size
viii. Medium size
ix. Large size

4. What are factors that affect small and medium enterprise capital structure decision?

a) _____
b) _____
c) _____
d) _____
e) _____

5. What can be done in order to improve small and medium enterprise capital structure decision in term of business growth?

a) _____

b) _____

c) _____

d) _____

e) _____

Appendix X: Proposed Research schedule

The researcher planned to take one year to complete this study as the table below shows.

ACTIVITY	**MONTH/YEAR 2014/2015**										
	SEP	**OCT**	**NOV**	**DEC**	**JAN**	**FEB**	**MAR**	**APR**	**MAY**	**JUNE**	**JULY**
Planning of the research proposal.	√										
Research proposal writing		√	√								
First draft of research proposal.				√	√						
Research Proposal presentation					√						
Research proposal approval					√	√					
Data collection processing and analysis.							√	√	√		
Report writing								√	√	√	
Submission of the first draft										√	√

Appendix XIV: THE BUDGET

The following table shows the list of items that will be required to carry out the research dissertation and their approximate costs.

S/No.	Item	Required	Cost per unit	Total cost
1.	Transport cost when a researcher collecting data	1 person	-	300,000/=
2.	Computer costs	Typing/printing		200,000/=
	Paper (A-4)	6 ream	12,000/=	720,000/=
	Photocopying	-	-	50,000/=
	Printing	-	-	100,000/=
	Binding	-		150,000/=
	Mobile phone expenses	-	-	100,000/=
	Material searching cost	Internet service	-	300,000/=
	Consultant cost		-	1,000,000/=
	TOTAL			**2,920,000/=**