

THE IMPACT OF MANAGERIAL ATTITUDES AND CHARACTERISTICS ON FINANCING DECISIONS OF SMES IN SRI LANKA: EVIDENCE FROM UVA PROVINCE

Y.M.C. Gunaratne

*Department of Management Sciences, Faculty of Management, Uva Wellassa University, Badulla
(UP), Sri Lanka*

Corresponding author: gunaratneymc@gmail.com

The traditional financial theories of capital structure developed within the context of large corporations in developed economies do not adequately explain the financing behaviour of Small and Medium Enterprises (SMEs) in developing economies. This paper examined whether the managerial attitudes and characteristics of the owner/managers influence on financing decision of SMEs in Sri Lanka based on the hypothesis that unlike in large corporations, owner managers' attitudes and characteristics highly influence on the mode of financing used by the SMEs. The study was conducted based on the data collected from 100 SME managers in Uva province Sri Lanka. The questionnaire survey method was initially used to collect data followed by few focus group discussions to get in-depth understanding on how managerial factors influence on capital structure decisions and to confirm the findings of the structured questionnaire survey. Descriptive statistics and regression analysis techniques were used for statistical analysis. The aversion to external control, risk taking propensity and growth intention were used as the dimensions of managerial attitudes and the managerial network ties, managerial education and managerial experience were used as the dimensions of managerial characteristics while leverage was used as the proxy for financing decision. The statistical analysis revealed that there is a strong negative relationship between the aversion to external control and firm leverage, positive relationship between risk taking propensity, growth intention and managerial experience with firm leverage and no relationship between managerial network ties and managerial education level with firm leverage. The results suggest that the financing decision of SMEs in Sri Lanka is highly influenced by the owner managers' aversion to external control, risk propensity, growth intention and managerial experience. Hence, the policy makers should aware this when developing effective support mechanisms for the development of SMEs.

Keywords: Capital structure, Managerial attitudes, Managerial characteristics, SMEs