

Shafie Mohamed Zabri; Kamilah Ahmad; Adonia, Siti Azirah

Article

The influence of managerial characteristics on external financing preferences in smaller enterprises: The case of Malaysian micro-sized enterprises

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*Corresponding author: Kamilah Ahmad, Faculty of Technology Management and Business, Universiti Tun Hussein Onn Malaysia, Parit Raja, Batu Pahat, Johor 86400, Malaysia
 E-mail: kamilah@uthm.edu.my

Reviewing editor:
 David McMillan, University of Stirling, Stirling, UK

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MANAGEMENT | RESEARCH ARTICLE

The influence of managerial characteristics on external financing preferences in smaller enterprises. The case of Malaysian micro-sized enterprises

Shafie Mohamed Zabri¹, Kamilah Ahmad^{2*} and Siti Azirah Adonia²

Abstract: Previous studies have identified various factors underlying firm financing structure especially in large firms. However, few have attempted to document the reasons for financing preferences among microenterprises in developing countries. Employing a managerial-based theory, this study explores the financing preferences of microenterprises and factors that influence their preference towards external financing. Based on 310 valid replies to a questionnaire survey conducted among Malaysian microenterprises, it finds a clear financing hierarchy where internal funding sources are preferred to external finance. It also underscores the important role of external financing sources. Applying structural equation modelling, the study demonstrates that information on external financing, level of internal funding, growth intention, networking ties and owner's experience exert significant effects on external financing preferences. In addition, business age and the relative location of a business from banks and/or finance agencies appear to have a significant confounding influence on the results. The empirical evidence contributes to the limited but growing literature on financing preferences by revealing the

ABOUT THE AUTHOR

This paper was co-authored by Dr. Zabri, Dr. Ahmad, and Miss Adonia. Both Dr. Ahmad and Dr. Zabri are Associate Professor at Universiti Tun Hussein Onn Malaysia (UTHM). Dr. Zabri's research works focuses on business and management of SMEs especially on the aspect of financial behaviors and capital structure decisions. He completed his PhD in Business from University of Plymouth, UK with a thesis on financing preferences and capital structure among successful SMEs in Malaysia. Dr. Ahmad completed her PhD in Accountancy at the University of Exeter, UK. Her research interest is in entrepreneurship and accounting particularly in the area of managerial accounting and performance measurements in SMEs. Miss Adonia is a research assistant with a background in production and operations management. She completed her Masters in Technology Management from UTHM.

PUBLIC INTEREST STATEMENT

Access to finance is a universal issue among SMEs, particularly microenterprises around the world. This issue requires a better understanding of the decision-making processes microenterprises employ to select sources of financing for their business activities. Microenterprises typically represent a large percentage of businesses within the SME sector in every country. Interestingly, previous studies have found that the main issue related to access to finance is not the availability of financing, which was found to be abundant, but rather the accessibility of funding. In simple words, the funds are there, but they remain inaccessible due to various factors, including the financing preferences of microenterprises. This research explores microenterprises' financing preferences towards external sources of financing and factors influencing their preferences. Its findings provide useful information for funding providers in developing suitable financing schemes for SMEs in general and for microenterprises in particular.

simultaneous effects of managerial characteristics on financing preferences in the context of microenterprises.

Subjects: Entrepreneurship and Small Business Management; Small Business Management; Entrepreneurial Finance

Keywords: Capital structure; microenterprises; microfinance; entrepreneurial financing; SMEs; small business; developing country; Malaysia

1. Introduction

Scholars and policy makers generally assert that access to finance is critical to spur continuous development of entrepreneurial activities and support the growth of the economy. However, some businesses such as microenterprises encounter more setbacks in obtaining funds than do their larger counterparts (Fumo & Jabbour, 2011). Various perspectives explaining business owners' abilities to identify and secure funding recognise a range of factors that consequently shape owners' preference towards external financing. These perspectives, which include capital structure theories first developed by Modigliani and Miller (1958), static trade-off theories (Kraus & Litzenberger, 1973) and pecking order theories (POT; Myers, 1984), have been widely employed to explain the behaviour of firms' financing decisions. Nevertheless, the use of financial theories of capital structure alone may not be able to elucidate the financing preferences of small or microenterprises (Borgia & Newman, 2012; Rao & Kumar, 2018). Empirical tests of the capital structure theories suggest that the finance theory presumption does not hold for small enterprises because their market constraints violate many assumptions underlying the financial theories (Baker et al., 2017); thus, these theories perform poorly in explaining smaller firms' financing decisions.

As an alternative, managerial theories have been adapted to explain the financing behaviour of small businesses (Borgia & Newman, 2012). Al Balushi et al. (2019) argue that financing requirements of small businesses are not constant; rather, they vary with the firms' and owner-managers' characteristics and capabilities. This variance is based on the fact that small businesses rely on the ability and desire of a single individual or a few individuals to access financing (Chakraborty & Mallick, 2010). Indeed, owner-manager attributes, along with their preferences for and anticipation of debt, influence a business's tendency to pursue different funding options (Hamilton & Fox, 1998; Mohamed Zabri et al., 2017). Thus, the debt level of small enterprises results not only from supply-side deficiencies but also from demand-side preference ordering. Demand-side factors affecting financing decisions include the level of internal funding, the business's knowledge of funding information, the business's growth intention, the owner's experience and age, and the nature of social capital networks (Alakaleek & Cooper, 2018; Rydehell et al., 2019). Nevertheless, the literature has not explicitly identified the factors that influence owners' financing decisions in the microenterprise setting. While a substantial number of studies examine the financing preferences of small- and medium-sized enterprises (SMEs) in developed and developing countries (Osano & Languitane, 2016), empirical evidence on financing preferences and the determinants of financing preference among microenterprises remains scarce. In most countries, including Malaysia, microenterprise, which comprises the largest part of the SME sector, represents an important medium for poverty reduction and entrepreneurial development. Gathering information on this valuable topic is vital to better understand the financing behaviour of microenterprises. Against this backdrop, this study seeks to explore the financing preferences of microenterprises and the effect of managerial characteristics on external financing preference.

Drawing on data collected from Malaysian microenterprises, this paper aims to answer two specific research questions: "What are the financing preferences of microenterprises?" and "What are the significant factors that affect the financing preferences of microenterprises?" Answering these questions addresses a noticeable gap in the extant literature. This study offers current empirical evidence on financing preferences and the simultaneous effects of managerial factors on financing preferences in microenterprises. The study also contributes to and calls for research

across diverse groups of SMEs, particularly microenterprises, which have been neglected in the literature (Fumo & Jabbour, 2011; Osei-Assibey, 2013). Thus far, the data on financing and its associated factors generally relate to SMEs, yet detailed analyses of microenterprises are lacking. This neglect is surprising and problematic because microenterprise plays a crucial role in increasing entrepreneurial activities. Compared to other SMEs, microenterprises face different decisions and restrictions when attempting to access financing. For example, financing problems, including high risk, high transaction costs, lack of information and uncertainty, are more acute for microenterprises located in rural areas (Osei-Assibey, 2013). Contributing new evidence regarding the nature of financing in microenterprises enriches the body of knowledge on entrepreneurial financing and provides useful information to enable policy makers and lending agencies in the microfinancing system to improve the delivery of financial services to microenterprises and strengthen the framework of microfinance. Finally, the study investigates the effect of managerial characteristics on microenterprises' financing preferences while controlling for business age, size and relative location to funding institutions/agencies. These findings likewise contribute substantially to the extant literature on financing preferences in microenterprises. This article is organised in the following manner. The next section explains the theoretical and empirical framework of the research, while the description of the research methodology appears in Section 3. The analysis and research findings are presented and discussed in Section 4, and finally, the study concludes in Section 5.

2. Theoretical framework and hypothesis development

Financing preference refers to the owner-manager's choice regarding the form of capital or the mixture of debt and equity (Mohamed Zabri et al., 2017). The literature indicates that microenterprises generally rely on self-raised financing, pawning or, occasionally, informal sources of finance such as immediate family and friends (Houssain et al., 2006). Winborg and Landström (2000) emphasise small businesses' preferences for informal and private investors and their tendency to opt out of formal sources. This financing pattern can be explained by a number of theories, such as signalling theory, information asymmetry and the financial growth paradigm (A.N. Berger & Udell, 1998). According to the widely used pecking order theory, firms cannot rely on an optimal capital structure; rather, the proportion of their debt is the outcome of hierarchical financing decisions where internal financing is preferred to external financing. When a business is required to seek external financing sources, the debt option is preferred to new equity (Fatoki & Odeyemi, 2010). However, this theory entails limitations as small businesses, particularly microenterprises, are typically not positioned to issue equity to the public, and their owner-managers are likely to disagree with decisions that reduce their influence (Holmes & Kent, 1991).

Given that the owner-manager functions as the microenterprise's dominant decision maker, his or her financing preferences exert significant control within the microenterprise (Baker et al., 2017). Funding decisions depend upon managerial characteristics such as experience, age and the ability to network, plan, gain financing information and manage internal funds (Alakaleek & Cooper, 2018; Mac An Bhaird & Lucey, 2010). Building upon the assumption that the capabilities and characteristics of firms and owners can influence the choice of external financing, this study contends that a business's access to information on external funding, its levels of internal funding, its intention for growth and its network ties, along with its owner's expertise and age, will impact preferences on external financing. This study therefore examines the role of these variables in explaining the choice of external financing among microenterprises. Six hypotheses are developed to confirm whether or not the selected managerial characteristics exert significant effects on external financing preferences.

2.1. Information on external funding

Information on external funding plays an important role in making effective financing decisions. A failure to acquire relevant information on the available financing options can result from several factors, including a lack of experience, a lack of skills (Ahmad, 2012), insufficient promotion of financing facilities (Chimucheka & Rungani, 2011), and the tendency of enterprise owners, in some circumstances, to ignore information about external funds (Esperança et al., 2003) Mashenene

et al., 2012). Enterprises with less information on funding options may not fully understand the potential benefits of seeking financing or the likelihood of securing it; this information gap ultimately impedes manager-owners' judgements and produces poor financing decisions (Han, 2008; Irwin & Scott, 2010). The acuteness of information asymmetries between bankers and business owners also hinders viable enterprises from accessing finance (Osano & Languitane, 2016). Models of equilibrium credit rationing that lead to moral hazard and adverse selection issues (Stiglitz & Weiss, 1981) suggest that small or microenterprises may be particularly disadvantaged in this regard because they tend to be informationally opaque and, therefore, struggle to acquire intermediated external financing (Allen N. Berger & Udell, 2002). In addition, a lack of information on financing options results in a marked increase in financing costs as businesses pay high interest rates to the most expensive lenders while leaving the more cost-effective financing facilities underutilised (Ibrahim, 2017). To rectify this asymmetry of information, banks should supply relevant information directly to borrowers. The dearth of external finance may signify an entrepreneurial preference, but it can also be because of inefficient local financial institutions (La Rocca et al., 2011). Indeed, firms with greater financial knowledge and information are more careful in debt financing decisions and may experience a stronger motivation towards responsible behaviour (Borden et al., 2008). With sufficient information, some enterprises eschew debt financing as they can identify financing alternatives more suitable for their businesses (N. Nguyen & Luu, 2013). Based on the above arguments, this study proposes the following hypothesis:

H₁: Information on external funding exerts a significant effect on external financing preference.

2.2. Level of internal funding

Previous research indicates a significant relationship between internal business funding and financing preferences. However, the direction of the relationship remains unclear. Perceiving self-funding as more convenient, more efficient and less risky, some businesses prefer to utilise internally raised funds, including retained profit and household savings. Besides avoiding the excessive cost of loan funding, retaining the ability to manage the endeavours of an enterprise without external interference is imperative for small businesses (Mashene et al., 2012). Nevertheless, the choice for self-funding is always subject to the level of a business's internal funding because enterprises generally seek financial support from banks and other financial institutions when they fail to generate enough savings and suffer a lack of internal capital funds (Daskalakis et al., 2013; Hoque et al., 2016). On the other hand, enterprises with sufficient internal funds are able to support their operations internally (Fatoki & Asah, 2011). Mohamed Zabri et al. (2017) report that highly liquid firms and rapidly growing firms require less additional leverage because they are capable of generating more capital through retained earnings. This financing behaviour is consistent with POT, which suggests that in any situation, firms will utilise their internal funding before resorting to external debt. The theory indicates further that establishments will borrow, rather than issue equity, when internal cash flow is not sufficient to fund capital expenditures. Thus, the amount of debt will reflect the firm's cumulative need for external funds. Many studies confirm that POT accurately depicts the financing behaviour of small business (Mac An Bhaird & Lucey, 2010). Given the arguments, it can be inferred that the level of internal funding may affect owner-managers' preferences towards external funding, and this study proposes the following hypothesis:

H₂: Level of internal funding exerts a significant effect on external financing preference.

2.3. Business networking

Networking connects different enterprises via an effective communication platform and collective resources (Alakaleek & Cooper, 2018). Through diverse relationships, enterprises can access valuable and specialised knowledge, skills and resources complementing their own limited in-house

competencies (Li et al., 2009; Parida et al., 2016). Businesses engage in networking to secure the information, raw materials, technology or knowledge necessary to continuously develop and appeal to consumers (Lechner & Dowling, 2003). Networking is also a vital source of information for SMEs, and it enables lending institutions to attain information, discover markets and secure their investments (Le & Nguyen, 2009). Business networks can include informal contacts, such as family, friends and business partners, and formal networks comprised of funding providers, banks and business professionals (Rydehell et al., 2019). Exchanges within the networks do not rely on explicit written contracts; rather, they are guided by norms or conventions (Kandori, 1992). Owners with stronger networking ties require less debt financing because they can access adequate external resources through informal channels (Borgia & Newman, 2012). From a relational lending perspective, A. N. Berger and Udell (1995) explain that the bank-borrower relationship functions as a vital mechanism for reducing the asymmetric information problem related to financing small enterprises. Relational lending suggests that banks obtain information over time through contact with the business, its owner and the local community, and they use this information to decide on the lending terms. Borrowers with more enduring banking relationships pay lower interest rates and are less likely to pledge collateral (A. N. Berger & Udell, 1995). Similarly, Rao and Kumar (2018) assert that strong network ties with banks, suppliers and other firms enable small firms to reduce debt. Thus, based on the previous findings, we propose the following:

H₃: An enterprise's business networking exerts a significant effect on external financing preference.

2.4. Growth intention

The growth intention of a business, or the owner's goals for the growth trajectory they intend to pursue, is widely recognised as a choice (Ali, 2018). Economic theories suggest that owner-managers of small businesses may pursue economic goals and non-economic goals (Davidsson, 1991; Tundui, 2012), which affect their growth plans. Assuming that owner-managers make the decisions to expand or not based on the resources available (Peterraf, 1993), the theories suggest that the ability to identify and acquire resources in a timely manner will encourage businesses to strive for future development and growth (A.N. Berger & Udell, 1998). In this context, owner-managers' goals for their businesses can provide a strong foundation for their financing decision, especially when they aim to further develop the business. Mohamed Zabri et al. (2015) argue that owners' preferences, business goals and motivations towards financing preferences hold great significance in understanding firms' financial practices. If the principal aim of a business is to achieve growth, owners may be less averse towards control retention and more active in acquiring external financing (Rao & Kumar, 2018). Thus, businesses with greater prospects for growth are perceived to exhibit a greater need for external finance and vice versa (Hamilton & Fox, 1998; Osei-Assibey, 2013). Furthermore, capital needs vary at different phases of firm growth, i.e. formation, rapid growth, growth to maturity, maturity and decline (La Rocca et al., 2011). Thus, small or young businesses may be able to acquire funds from internal sources, such as earnings, and informal sources, such as family and friends. However, more capital is required as the firm grows, and eventually, the firm must turn to external sources, such as banks. Small business that has advanced beyond the formation phase are likely to be financed by retained earnings, trade credit and bank loans (Chakraborty & Mallick, 2010). Despite these valuable findings, the examination of the impact of growth planning on the financing preferences of microenterprises in developing economies remains inadequate. For example, Tundui (2012) fail to prove a significant effect for growth strategy on external finance. Hence, to establish whether a growth plan has a significant influence on external financing preference, the following hypothesis is developed:

H₄: Growth intention exerts a significant effect on external financing preference.

2.5. Owner's age

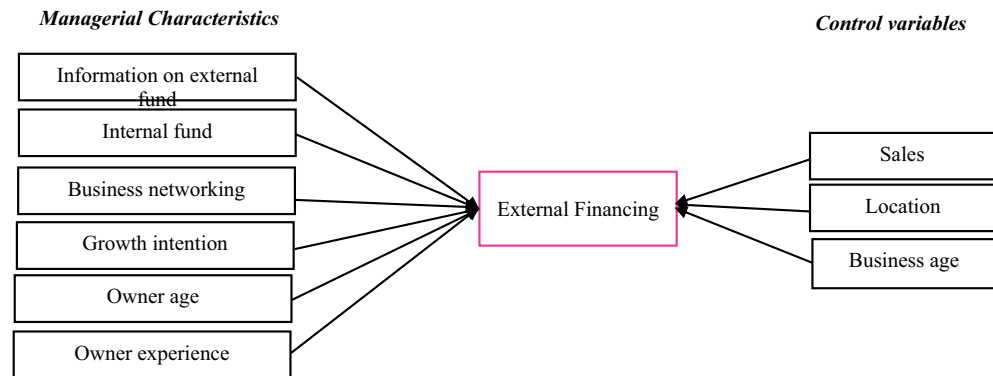
Prior studies indicate that the age of a business owner may influence the firm's financial decisions because it can provide signals regarding the owner's preference and capability in the credit market. This assumption is based on the notion that a certain age cohort has a propensity to act differently from other age cohorts. From the demand side of the loan perspective, the preference of certain cohorts towards loans differs with age. In this regard, older owners are presumed to be more risk averse and more likely to use their own funds for financing compared to younger business owners. In addition, older individuals tend to struggle more with complex decision making and may make poorer financial choices because they incorporate more limited information into their decision-making processes (Bruine De Bruin et al., 2012). Vos et al. (2007) find that older small business owners are less likely to seek external financing, while younger business owners utilise external financing actively. From the supply side perspective, the current literature suggests that banks view younger owners—despite their innovative ideas—as riskier to their portfolios and are thus more inclined to offer credit to relatively older owner-managers (Ogubazghi & Muturi, 2014). Supporting this perspective, Mohamed Zabri et al. (2015) assert that older business owners tend to have higher levels of work experience, education, wealth and social contacts and may be wiser and responsible than the younger ones. Meanwhile, Wu et al. (2008) argue that middle-aged owner-managers possess better knowledge of the financial market and are more likely to utilise bank financing. As the age of owner-managers rises, moreover, information asymmetry declines, which increases access to bank loans (Abdulsaleh & Worthington, 2013). This supports a finding by Carter and Rosa (1998) who report that younger business owners tend to have limited start-up capital and are less likely to access loans from banks. Finally, empirical evidence from N. Nguyen and Luu (2013) and Ogubazghi and Muturi (2014) demonstrate that age exhibits a significant relationship with debt preference. In contrast, Fatoki and Odeyemi (2010) and Slavec and Prodan (2012) fail to find a significant influence of owner age on debt. These inconsistent results regarding the effect of age on external finance preference underscore the need for additional research. Accordingly, we propose the following hypothesis:

H₅: A business owner's age exerts a significant effect on external financing preference.

2.6. Owner-manager's experience

An owner-manager's experience is perceived as a measure of reputation that provides a positive signal regarding the quality of the firm's human capital. Especially among new business, firms lacking managerial experience and skills are often associated with failure (Martin & Staines, 2008). They are also less likely to be embedded in a network (Owolabi & Pal, 2013) and unable to develop a proper plan for future growth. Thus, they have limited access to various sources of finance. As these findings indicate, the experience of managers can become a distinguishing feature between high- and low-growth microenterprises. Manager expertise is also crucial in reducing the asymmetry of information between the business owner and external investors in emerging economies (Borgia & Newman, 2012). Owner-managers with greater experience are more likely to exploit external debt financing since they are more capable of making effective financial decisions (Cassar, 2004). Prior studies suggest that owner-managers with moderate business experience enjoy significant leverage and are more likely to rely on formal financing mechanisms (Sena et al., 2012). Similarly, Wu et al. (2008) reveal that managers with greater business experience tend to utilise bank financing. On the other hand, Scherr et al. (1993) and Cassar (2004) find a significant and negative relationship between years of experience and the use of external debt. Their study suggests that owner-managers with greater experience tend to be more risk and control averse and thus less likely to pursue debt financing than owner-managers with less experience. The ability of experienced owner-managers to conduct business with more limited financial support than their less experienced counterparts is also well established. However, Coleman and Cohn (2000) discover no significant influence for managerial experience on external debt. Given the arguments, this study proposes the following hypothesis:

Figure 1. Conceptual framework of the endogenous, exogenous and controlling variables.



H₆: An owner-manager's experience exerts a significant effect on external financing preference.

Figure 1 illustrates a conceptual framework of the direct links between the selected independent variables and external financing preference. Three confounding variables—business age, business annual sales and a business's relative location from banks and finance agencies—are controlled to clarify whether the influence of managerial characteristics on external financing preference varies according to business age, size and access to local funding.

3. Research methodology

A microenterprise is a small business that employs a small number of employees, typically initiates operations with a small amount of capital and specialises in providing goods or services for its local area (Institute for Employment Studies (IEFS), 2016). Within the Malaysian context, a microenterprise is defined as a business with either an annual turnover of less than RM300,000 or fewer than five employees (SME Corp. Malaysia, 2020). With the increasing pursuit of entrepreneurship, especially in developing countries, the number of microenterprises, which encompasses the largest segment of the SME sector, has grown rapidly in recent years (Ahmad & Mohamed Zabri, 2015). For instance, the microenterprise sector in Malaysia, which comprises about 76.5% of the country's total SMEs population, accounts for nearly RM90 billion of all SME contributions (Department of Statistics Malaysia (DOSM), 2011).

This study examines microenterprises in Pasir Puteh, Kelantan, as its main population. Situated in northeast Malaysia, Kelantan has the highest number of microenterprise establishments on the east coast of the peninsula (Department of Statistics Malaysia (DOSM), 2011). The district of Pasir Puteh, which is located near Kota Bharu, the capital city of Kelantan, has exhibited rapid growth in the population of micro-sized establishments over recent decades (SME Corp. Malaysia, 2015). The sampling frame, which was retrieved from businesses in all sectors registered with the city council, recorded 3,216 microenterprise establishments. The sample was filtered based on the availability of information regarding businesses' addresses and contact numbers. Due to time and cost constraints, this study disseminated self-administered, closed questionnaires to 500 microenterprises via email and face-to-face distribution. These 500 businesses were selected via a random sample, which is most representative of the entire population and least likely to result in bias. The questionnaire included questions regarding respondents' backgrounds and general questions regarding sources of funding. It also included enquiries to assess financing preference, external financing preference and factors related to financing preferences.

3.1. Dependent variables

External financing preference (EF) refers to the choice of external debt financing, such as bank loans, which requires repayment with market interest or a grant (financial assistance that subsidises the interest fee). EF was measured using a seven-point scale in which 1 = very low

and 7 = very high. Respondents were asked to apply the scale to three items related to EF: 1) the extent of the owner's preference towards external debt commitment, 2) interest in loan commitment and 3) overall choice towards external finance. The approach was adapted from prior studies by Osei-Assibey (2013), Hoque et al. (2016), and Adonia et al. (2018).

3.2. Managerial characteristics

In terms of managerial characteristics, respondents were also asked—again using a seven-point scale from 1 = very low to 7 = very high agreement—to indicate the extent to which they agreed with items regarding information on external funding (IEF, 3 items), internal funding (LOF, 3 items), growth intention (Growth) and networking (NET, 6 items). The details for each item are presented in Table 2. The measures were adapted from multiple studies, including Borgia and Newman (2012) and Adonia et al. (2018). Other variables, such as the owner's age and experience, were derived from the demographic data of the respondents.

3.3. Control variables

Firm level control variables included the size (annual sales average as a proxy), age and location of the enterprises relative to banks and finance agencies. While sales and enterprise age were obtained from the respondents' business profiles, each enterprise's location relative to banks and finance agencies (LCN) was measured on a seven-point scale from 1 = very low to 7 = very high. Information on three sub-items was also obtained. These variables were derived from the current literature, which suggests that financing preference is also determined by funding availability based on the proximity of banks to business areas (Alakaleek & Cooper 2018), business size and business age (Osei-Assibey, 2013). The differences in these factors engender different financial decisions and behaviour (Cassar & Holmes, 2003). Gilbert et al. (2008) highlights a significant effect for business location on access to markets and funding. Firms situated in central areas enjoy greater access to various sources of funding than those located in rural areas. Meanwhile, Cassar (2004) contends that smaller businesses may be less capable of resolving information asymmetries with debt providers and may therefore utilise debt financing less frequently. In addition, the age of a business offers important signals regarding its ability to endure challenging economic conditions; thus, firms of different ages exhibit different needs for external debt financing. While lenders often discriminate against newer firms, they tend to ascribe more positive reputations to older firms based on those firms' financial records and greater creditworthiness; thus, older firms are able to access external debt financing more easily than newer firms, which lack a track record or credit history. We expect larger and older enterprises, along with those located closest to banks and finance institutions, to exhibit different tendencies toward external financing than their smaller, younger and more distant counterparts.

3.4. Response rate and non-response bias

Aided by two follow-ups to the first distribution of the questionnaire survey, we received a total of 310 completed replies for a response rate of 62%. A non-response bias test was performed to ensure the absence of a non-response bias; the results are presented in the Appendix, Table 1. To test for non-response bias, the first 30% of responses returned and the last 30% of responses returned were compared using the independent samples t-test for ordinal and interval data and a chi-square test for nominal data, thereby comprising all the independent and dependent variables used for the analysis. With significance measured by a p-value greater than 0.05, our results identified no significant differences between the two sets of data, thus supporting the absence of a non-response bias. To ascertain further that common method bias did not affect our results, a Harman's single-factor test was performed using exploratory factor analysis (unrotated, single factor). The analysis generated 18 factors with eigenvalues greater than 1. The first factor explains 33.4% of the variance, which is lower than the threshold value of 50%; hence, we conclude that common method bias was not a major concern in this study.

Table 1. Demographic profiles of the respondents (N = 310)

	Percent		Percent
<i>Gender</i>		<i>Annual sales</i>	
Male	42.9	RM0-RM50000	10.0
Female	57.1	RM50001-RM150000	37.4
Total	100.0	RM150001-RM300,000	52.6
		Total	100.0
<i>Owner Age</i>		<i>Sector</i>	
19–25 years	3.2	Retailing & wholesaling	48.7
26–35 years	12.3	Manufacturing	11.6
36–45 years	20.0	Construction	8.7
46–55 years	29.4	Service	25.5
> 55 years	35.2	Agriculture	5.5
Total	100.0	Total	100.0
<i>Owner experience in business</i>		<i>Business age</i>	
< 3 years	1.6	< 2 years	.3
3–5 years	18.7	3–5 years	19.4
6–10 years	12.6	6–10 years	17.4
11–15 years	32.3	11–15 years	40.0
> 15 years	34.8	> 15 years	22.9
Total	100.0	Total	100.0

Table 2. Type of financing preference

	Min.	Max.	Mean	Std. Dev.
Internal sources of finance	3	7	4.65	1.03
External sources of finance	1	7	4.54	1.47
<i>Source of Internal funding</i>				
Own saving	3	7	5.25	0.92
Gift from family members	1	6	2.85	0.98
Business retained profit	4	7	5.66	0.63
<i>Source of External funding</i>				
Trade/supplier credit	1	7	5.58	0.97
Government scheme/grants	1	6	4.00	1.20
Bank loan	1	6	3.71	1.22
Leasing	1	6	2.57	0.95
Pawn broking	1	7	4.00	1.23
Cooperation	1	6	3.06	1.00
Personal credit card	1	6	2.44	0.91
Loan from family & friends	2	6	4.42	0.97

4. Data analysis

4.1. Demographic profiles of respondents

Table 1 reports demographic information for the responding enterprises. Female and male respondents comprised 57.1% and 42.9% of the total respondents, respectively. The sample also included respondents from different age groups and different sectors. The largest age group, representing 25.2% of respondents, included those older than 55 years of age. In terms of sector, 48.7% of the

respondents were from the retailing and wholesaling sector followed by 25.5% from the service sector. A majority of respondents (52.6%) recorded annual sales between RM150,000 to RM300,000. Most respondents (40%) had been engaged in business for 11 to 15 years, and 22.9% had been in business for more than 15 years. Meanwhile, 19.7% had been in business for less than five years and were considered to fall into the young businesses category. Finally, regarding owner experience, 67.1% of respondents had business experience totalling more than 10 years.

4.2. Sources of debt financing

[Table 2](#) presents the descriptive results regarding financing preference and sources of financing. Consistent with previous research indicating that most microenterprises are internally funded, the responding enterprises moderately preferred internal funding sources with a mean score of 4.65, which was slightly higher than the mean score for external financing sources. The largest sources of internal funding were the businesses' retained earnings followed by the owners' own savings with mean scores of 5.66 and 5.25, respectively. Despite their slight preference for internal funding, the respondents did rely considerably on external debt financing (with a mean equal to 4.58) as an alternative source of funding. A few reasons promote the use of external finance. Prior studies indicate that an owner's personal and family-accumulated internal funding is often inadequate to cover all of the business's financing needs. It is particularly challenging, moreover, for businesses facing poor performance or unstable earnings to rely entirely on internal sources (Ogubazghi & Muturi, 2014). If the need for additional capital is greater than the current accumulated earnings, businesses will most likely opt for external debt financing (Adonia et al., 2018). In the context of financial growth, Chakraborty and Mallick (2010) assert that growing firms require more capital to finance their expansion, and at some point, firms typically need to utilise external sources, such as banks and public debt and equity markets. Considering their incapacity to access public debt and equity markets, microenterprises tend to rely heavily on commercial banks as a source of debt financing (Coleman & Cohn, 2000).

Among the sources of external funding, trade credit took precedence for our respondents followed by loans from family and friends with mean scores of 5.58 and 4.42, respectively. Trade credit provides a number of benefits to microenterprises, especially those with limited cash. From the creditor perspective, prior research suggests that suppliers may have an informational advantage over other creditors in assessing customers' capacity to pay (Petersen & Rajan, 1994). Trade credit also serves a signalling role in developing economies, offering an informational advantage to lenders serving less creditworthy businesses (Allen N. Berger & Udell, 2002). Given the advantages for both businesses and creditors, the strong preference towards the use of trade credit among microenterprises is unsurprising. In addition to trade credit, pawn broking, which is relatively quick, easy and inexpensive compared to unsecured loans, plays an important role in financing microenterprises particularly in developing countries. However, our results indicated a rather limited use of bank loans, leasing and cooperation with mean values of 3.71, 2.57 and 3.06, respectively. Our results are consistent with Lindvert et al. (2015), who reveal that businesses perceived semiformal capital as the most accessible form of external capital followed by governmental grants and subsidies. Meanwhile, loans from formal banks were not the main financing alternative for microenterprises in our study. Our results also support IES findings (Institute for Employment Studies (IEFS), 2016), which indicate that a majority of small businesses are relatively inexperienced in terms of financial accounting and expertise and therefore prefer basic banking and lending requirements. Overall, our findings identified a clear financing hierarchy among microenterprises wherein internal funding sources were preferred to external finance.

4.3. Factoring analysis

An exploratory factoring analysis (EFA) was first conducted to confirm whether the items used as latent variables truly correspond to the respective main variables. [Table 3](#) presents the EFA results for 18 items that comprise three endogenous variables: IEF1 to IEF3, LOF1 to LOF3, NET1 to NET6, a controlled variable, LCN1 to LCN3, and an exogenous variable (EFP1 to EFP3). [Table 3](#)

Table 3. Descriptive statistics of variables and EFA

Structure Matrix									
					Factor				
		Min.	Max.	Mean	1	2	3	4	5
IEF1	Knowledge on *EF	3	7	5.21	.506	.176	-.086	.882	.372
IEF2	Clarity of information on EF options	2	7	4.97	.420	.115	-.045	.910	.279
IEF3	Know how to manage EF	2	7	5.02	.452	.127	-.056	.976	.327
LOF1	Level of own fund	2	7	4.93	-.006	.866	-.054	.020	-.002
LOF2	Level of business income	3	7	5.12	.162	.848	-.071	.239	.019
LOF3	Sufficient use of internal fund	3	7	4.98	.094	.916	-.013	.151	-.005
NET1	Government agencies	1	6	4.31	.859	.134	.091	.382	.444
NET2	Banks	1	6	4.12	.778	.084	.042	.379	.352
NET3	Suppliers	1	7	5.32	.457	.313	-.088	.373	.160
NET4	Competitors	1	5	1.75	.016	-.072	.693	-.071	.022
NET5	Trade union	1	5	1.70	.090	.005	.890	-.019	.070
NET6	Universities	1	6	1.68	.085	-.042	.817	-.050	.063
LCN1	Number of bank branches	1	7	5.21	.519	.034	.070	.358	.957
LCN2	Number of financial agencies/ institutions	2	7	5.21	.519	.014	.052	.348	.977
LCN3	Easy access to banks/agencies	2	7	5.23	.542	.042	.014	.341	.894
EFP1	Choice on overall external funding	2	7	4.51	.872	.040	.059	.499	.535
EFP2	Choice on debt commitment	1	7	5.10	.837	.006	.123	.407	.591
EFP4	Willingness to pay interest on debt	1	7	4.01	.825	-.088	.098	.355	.549

Extraction Method: Principal Axis Factoring. Rotation Method: Oblimin with Kaiser Normalization.*EF external fund

demonstrates that the classification of the items is roughly consistent with our intent for all the variables except networking where NET1 to NET3 and NET4 to NET6 fall into separate groups. Because NET4 to NET6 produced low mean scores (below 2.0), we decided to exclude the three variables from further analysis. The individual item reliability was assessed by examining the outer loadings of each item in each construct and retaining items between 0.50 and 0.70 as a rule of thumb (Hair et al., 2014). The outer loadings for each of the latent variables of the present study were greater than 0.70 except for NET3 (0.457). Hence this item was also removed.

4.4. Measurement model assessment

Prior to modelling the structural model, the measurement model must be validated by determining individual item reliability, internal consistency, convergent validity and discriminant validity (J.F. Hair et al., 2010). Measurement validity refers to the accuracy of a measure or the extent to which a score precisely signifies a concept (Zikmund et al., 2013). To assess the validity and reliability of all latent constructs, confirmatory factor analysis (CFA) was performed. A technique for evaluating the measurement model for all constructs simultaneously, CFA ensures the appropriateness of the scales and the consistency of the measurement model constructs with the literature. Figure 2 presents an initial measurement of the CFA model in the AMOS graphic that includes six independent variables: 1) information on external funds, 2) internal funds, 3) growth intention, 4) networking, 5) owner age and 6) owner experience, along with three control variables: i) business age, ii) the location of banks and finance agencies to business and iii) sales. The output of the CFA reveals the factor loading for every item and component and the correlation between the constructs. Table 4 also presents correlation values, factor loadings and R-squared values for each item for clearer results. Table 4 indicates that items and factor loading are all above the cutoff point of 0.60 and have acceptable R-squared values.

To confirm the model's goodness of fit, absolute, incremental and parsimonious goodness of fit measures were obtained. The model was evaluated using the root mean square error approximation index (RMSEA), the goodness-of-fit index (GFI), the comparative fit index (CFI), the Tucker-Lewis index (TLI) and the normed fit index (NFI). Zainudin (2015) advised assessing the model based on its absolute fit (RMSEA <0.08; GFI >0.90), incremental fit (CFI, TLI and NFI >0.9) and parsimonious fit (χ^2/df < 3.0). Figure 2 shows that the model's goodness of fit achieves the required reliability level since the absolute measures of fit, RMSEA and GFI, are 0.070 and 0.917, respectively. With regard to the incremental measures of fit, the results produce CFI, TLI and NFI values that are all above 0.90, thus indicating adequate fit. The parsimonious measure of fit, χ^2/df , is also adequate since the value is less than 3.0. Construct validity was further assessed based on convergent validity and discriminant validity.

4.4.1. Convergent validity

Convergent validity is the extent to which a measure relates positively with an alternative measure of the same construct (Hair et al., 2014). It is evaluated using the average variance extracted (AVE) and composite reliability (CR). The AVE indicates the amount of variance in the indicators that is accounted for by the latent construct and is adequate when the AVE value exceeds 0.50. CR measures the degree to which the construct indicators represent the latent construct. CR is acceptable if its value is greater than 0.70 (Hair et al., 2011). Table 5 presents CR and AVE coefficients for each of the latent variables. The results indicate that all constructs have AVE values of 0.766 to 0.896, achieving the minimum of 0.50 and is larger than 0.70. Thus, the validity of both constructs and of the individual variables is high, which suggests all items are able to explain the variance in the main constructs.

4.4.2. Discriminant validity analysis

Discriminant validity concerns the distinctiveness of a construct, whether the phenomenon captured by a construct is unique and not represented by other constructs in the model (Hair et al., 2014). It refers to the extent to which factors are distinct and uncorrelated and is assessed by evaluating the cross-loadings among constructs using Fornell-Larcker criterion. To obtain satisfactory discriminant validity, the square root of the AVE should be higher than the correlations among the latent variables (Fornell & Larcker, 1981). Table 6 presents

Figure 2. Initial measurement of CFA model.

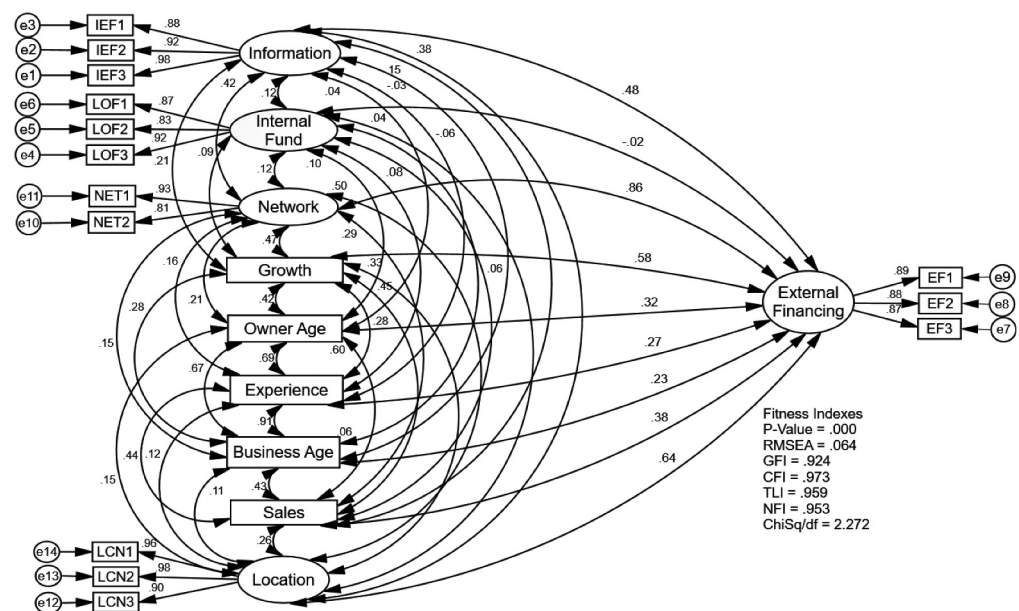


Table 4. Correlation analysis and item loadings

	Info	Int. Fund	Network	Growth	Exp.	Owner age	Buss. Age	Loc.	Sale	EF
Info	1									
Int. Fund	0.121**	1								
Network	0.444***	0.142**	1							
Growth	0.213***	0.093	0.488***	1						
Experience	-0.026	0.083	0.161**	0.28***	1					
Ow. age	0.038	0.101**	0.211***	0.416***	0.694***	1				
Bus. age	-0.063	0.058	0.149**	0.283***	0.906***	0.67***	1			
Location	0.383***	0.036	0.501***	0.33***	0.116**	0.147**	0.11	1		
Sales	0.151**	0.06	0.298***	0.454***	0.443***	0.604***	0.432***	0.265***	1	
EF	0.478***	-0.017	0.872***	0.579***	0.266***	0.325***	0.226***	0.644***	0.38***	1
Significant value **p < 0.05, ***p < 0.001										
Items loadings and R ²		Factor loading		R ²						
Constructs	Items									
Information	IEF1	0.880		0.775						
	IEF2	0.915		0.837						
	IEF3	0.975		0.951						
Internal fund	LOF1	0.866		0.749						
	LOF2	0.834		0.696						
	LOF3	0.924		0.853						
Network	NET1	0.926		0.857						
	NET2	0.813		0.660						
Location	LCN1	0.959		0.920						
	LCN2	0.981		0.963						
	LCN3	0.898		0.807						
External financing	EF1	0.887		0.786						
	EF2	0.877		0.769						
	EF3	0.867		0.752						

a discriminant validity index for all constructs, which was established by comparing the value of the square root of the AVE with the corresponding correlation values toother variables. Italicised and diagonal entries represent the square roots of the AVEs while the off-diagonal entries represent the correlations among constructs. The values of the square roots of the constructs' AVEs are greater than inter-factor correlation values (>0.70) except for network.

Having confirmed the validity of all measurements, constructs and measures of the model's fit, it is possible to construct a measurement model using structural equation modelling (SEM) and to establish significance levels and the magnitude of the regression coefficients estimated for the links specified in the research hypotheses.

4.5. Structural equation modelling analysis

This section presents the results of the SEM on factors that influence external financing preferences. A research method employed across a variety of disciplines, SEM is able to describe the causal relationships among a set of variables and concurrently analyse variables while accounting for measurement error. Given that the objective of the present study was to predict the effect of managerial characteristics on a microenterprise's external debt financing preference, SEM is considered a suitable analytical procedure. Hence, the present study utilised SEM-AMOS software to analyse the data.

SEM estimates the standardised path coefficients as well as the regression path coefficient between constructs of the model. Figure 3 demonstrates the standardised path coefficients of the model. An important criteria for SEM assessment is the R-squared value assessment, which is also called the coefficient of determination. It represents the proportion of variation in the dependent variable(s) that could be explained by one or more predictor variables and is subject to the context where a particular study is conducted (J.F. Hair et al., 2010). Zikmund et al. (2013) proposed that an R-squared value greater than 0.7 generally indicates a strong effect size. The R-squared value obtained for the present study was 0.87, which is considered high. The results suggests that all the independent variables together explain 87% of the variance in external financing preference.

Table 7 presents a regression path coefficient with significant p-value, along with the standardised and unstandardised coefficient estimates for all independent variables, controlling variables and dependent variables. All independent variables except the owner's age have significant effects on external financing preferences, while two controlling variables—business age and location of the business—significantly influence the effects between the independent variables and the dependent variables. Further analysis completes the study's hypothesis testing, which is summarised in Table 8.

Controlling for sales, business age and the relative location of the microenterprise to banks and finance agencies, the study finds support for five out of six proposed hypotheses: H_1 , H_2 , H_3 , H_4 and H_6 which suggests information on external funding, level of internal funds, networking ties, growth intention and owner's experience exert a significant effect on external financing preference. However, the results fail to indicate a significant effect for owner's age on external financing preference. Thus, H_5 is not supported. The result suggests that owner's age differences in external financing preference is insignificant within the microenterprise setting. The result is similar with Al Balushi et al. (2019) and Slavec and Prodan (2012).

The results for H_1 indicate that the information on external funding has a positive and significant effect on external financing preference with a coefficient value of 0.105 and a p-value of 0.004. This suggests that enterprise owners with sufficient financing information are more likely to utilise external financing sources than those with more limited financing information. It also implies that pertinent financing knowledge and reduced information asymmetries can significantly affect owner-managers' preferences towards external debt finance. Owners who are well informed about debt financing will be more careful in choosing debt financing as they can identify financing

Table 5. Loadings, composite reliability coefficients and average variance

Latent constructs	Items	Standardized factor loading	AVE	CR
Information of external financing	IEF3	0.975		
	IEF2	0.915		
	IEF1	0.880	0.855	0.946
Level of internal fund	LOF3	0.924		
	LOF2	0.834		
	LOF1	0.866	0.766	0.908
Business Network	NET2	0.813		
	NET1	0.926	0.759	0.862
Location business from bank	LCN3	0.898		
	LCN2	0.981		
	LCN1	0.959	0.896	0.963
External financing	EF3	0.867		
	EF2	0.877		
	EF1	0.887	0.769	0.909

alternatives that are more suitable for their businesses (N. Nguyen & Luu, 2013). Most importantly, having information on external funding enables business owners to utilise the most cost-effective financing facilities (Ibrahim, 2017).

Next, the results for H_2 reveal that the level of internal funds has a significant effect on external financing with an estimated coefficient of -0.144 and a p-value of 0.00 . The result's negative effect indicates that as an enterprise's internal funds increase, external financing preference decreases and vice versa. The results confirm that a highly liquid business is more likely to utilise internal funding, such as retained earnings. Hoque et al. (2016) report that small enterprises opt out of applying for credit financing because they have sufficient internal funds to operate. Such firms will seek external financing only if they lack internal capital and fail to generate sufficient savings. The results also support Hoque et al. (2016) and Daskalakis et al. (2013) arguments and regarding the negative direction of the link between internal funds and external financing.

The next hypothesis, H_3 , indicates that a business's growth intention has a positive and significant effect on external financing preference with an estimated coefficient of 0.159 and a p-value of 0.00 . The finding implies that enterprises with a greater intention for growth exhibit a stronger preference towards external financing. The result is consistent with previous studies such as Wiklund and Shepherd (2003) and Mohamed Zabri et al. (2015) who suggest that businesses with a strong motivation for growth rely significantly on external financing, while businesses with a weaker motivation for growth rely less on external financing. Rao and Kumar (2018) argue that owner-managers with a stronger growth intention are less strict in retaining control and more active in securing external financing. Although experience may grant a small business manager the relevant expertise to manage the firm, it has limited effect on growth unless he or she actually intends to expand the business (Wiklund & Shepherd, 2003). By delivering a positive signal regarding a business's future development, growth intention thus acts as an important driver to the access of external debt financing.

Table 6. Latent variable correlations and square roots of average variance extracted

Construct	IEF	LOF	NET	LCN	EF
IEF	0.925				
LOF	0.121	0.875			
NET	0.444	0.142	0.871		
LCN	0.383	0.036	0.501	0.947	
EF	0.478	-0.017	0.860	0.644	0.887

With regard to the support of H_4 , the results suggest that business networking exerts a significant effect on external financing preference with a coefficient value of 0.650 and a p-value of 0.00. In other words, microenterprises that enjoy broader connections with banks, financial agencies and suppliers exhibit a greater preference towards external financing. The results also support the theoretical argument on relational lending where a creditor-debtor relationship generates valuable information about borrower quality and thus can be used to reduce information asymmetry (Shane & Cable, 2002). These findings further reinforce the role of networking not only as a means of acquiring knowledge about new technology, resources and market opportunities but also as a strategy to access the required business funding. Our results are consistent with studies conducted by Le and Nguyen (2009), Alakaleek and Cooper (2018), and Rydehell et al. (2019).

Finally, support for H_6 indicates that an owner's business experience has a significant effect on external financing preference with a coefficient value of 0.211 and a p-value of 0.005. Thus, microenterprise owners with greater business experience enjoy better access to external financing and are more likely to utilise external debt financing because of their good credentials, sufficient knowledge and capability to make effective financial decisions (Cassar, 2004). Experience is vital in reducing the asymmetry of information between businesses and external funders. The finding supports Sena et al. (2012) and Borgia and Newman (2012) who found that a manager's experience is positively and significantly linked with debt finance.

Two of the controlling variables—business age and relative location of the business from banks and funding agencies—appear to have confounding influence on the effects of the independent variables on external debt. In terms of the location of banks and finance agencies in business

Figure 3. Standardised path coefficients.

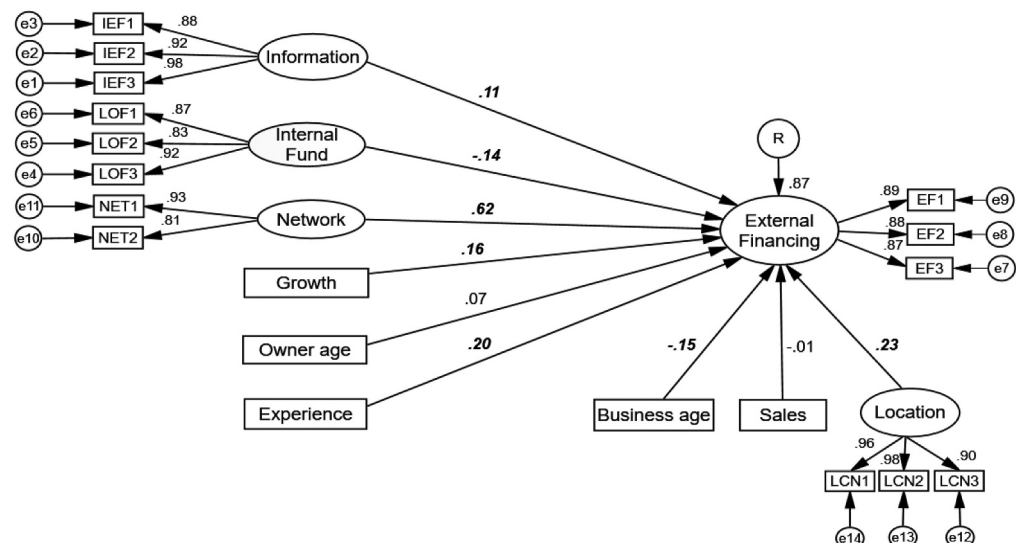


Table 7. Regression path coefficient

			Std. Beta	Unstd. Beta	S.E.	C.R.	P	Results
External_Financing	<—	Information	.105	.169	.059	2.88	.004	Significant
External_Financing	<—	Internal Fund	-.144	-.272	.062	-4.40	0.000	Significant
External_Financing	<—	Network	.621	.837	.074	11.38	0.000	Significant
External_Financing	<—	Growth	.159	.362	.090	4.05	0.000	Significant
External_Financing	<—	Owner age	.067	.088	.064	1.38	.168	Not significant
External_Financing	<—	Experience	.202	.262	.097	2.69	.007	Significant
External_Financing	<—	Business age	-.147	-.211	.105	-2.01	.044	Significant
External_Financing	<—	Sales	-.006	-.014	.090	-0.16	.872	Not significant
External_Financing	<—	Location	.231	.362	.061	5.94	0.000	Significant

areas, the results indicate that microenterprises are more likely to access debt finance if more banks or finance agencies are located nearby their business area. The availability of financing options within the business area significantly influences microenterprises' external financing preferences. This is consistent with Allen N. Berger and Udell (2002) claim that the proximity of banks and finance agencies to business areas is related to a business's use of leverage. Banks that are physically nearer to their customers are able to use soft, qualitative information concerning their customers' credit condition, which increases the use of different instruments of financing facilities.

Finally, this study finds a negative and significant effect of business age on external debt financing. The finding is consistent with Esperança et al. (2003) and Mac An Bhaird and Lucey (2010) who revealed a negative but statistically significant relationship between firm age and long-term debt financing. Similarly, Vos et al. (2007) found that the use of multiple sources of funds is negatively related to years in business. These result can be interpreted within the context of pecking order theory where older and more experienced firms require less external financing as they can rely more on internally generated funds. In contrast, younger firms are the most reliant on debt financing because a financial cushion of accumulated income generated by past investment is typically insufficient. The broad picture that emerges from the results shows that within the context of microenterprises, managerial competencies and attributes play critical roles in facilitating access to various financing options. This aligns with Mohamed Zabri et al. (2015) who argued that financing behaviour can be explained by an owner-manager's attitudes and a business's characteristics. Fraser et al. (2015) and B. Nguyen and Canh (2020) claimed that cognitive financial limits occur when entrepreneurs possess a conventional and high-risk-averse mindset as well as lack of interest in growth. Microenterprises must therefore improve the ability to secure the resources needed for growth as well as the competency to develop the organisation.

5. Summary and conclusion

Making appropriate financing decisions is critical for businesses to thrive and to avoid unnecessary financial burdens and the risk of bankruptcy. While no "best" approach characterises optimal financing decisions, this paper sheds some light on the factors affecting the external financing preferences of microenterprises. Microenterprise financing requirements and decisions diverge significantly from those of larger enterprises, and this distinction gives rise to correspondingly unique financial behaviours. Specifically, this research provides new empirical evidence on external financing preferences and explicitly assesses the roles of the selected managerial attributes in determining the preference for external financing among microenterprises. Consistent with earlier studies, the present study confirms that microenterprises tend to rely on internal capital rather than external debt funding. Nevertheless, the responding enterprises utilised external debt funding, particularly trade credit, to a moderate extent. This research also confirms moderate acceptance towards pawning and government-backed

Table 8. Hypothesis testing and conclusions for each path

No.	Hypothesis statement	Beta	S.E.	C.R.	p-value	Results
H ₁	Information of external funding has a significant effect on *EFP.	.105	.054	2.88	.004	Supported
H ₂	Internal fund has a significant effect on EFP.	-.144	.056	-4.40	0.000	Supported
H ₃	Network has a significant effect on EFP.	.621	.066	11.38	0.000	Supported
H ₄	Growth intention has a significant effect on EFP.	.159	.081	4.05	0.000	Supported
H ₅	Owner's age has a significant effect on EFP.	.067	.058	1.38	.168	Unsupported
H ₆	Owner experience has a significant effect on EFP.	.202	.089	2.69	.007	Supported

*external financing preference.

financial support, suggesting these as ideal alternatives for microenterprise financing in developing economies. Managerial attributes, which include adequate external financing information, greater business experience, stronger growth intention and greater networking ties, further underpin external financing in the microenterprise sector. It goes without question that knowledge and a business's capabilities to meet banks or investors' expectations for the long-term prospects of the business are essential in enabling the provision of finance and must be continuously improved to reduce the gap in access to finance. This finding has important implications for microenterprises in developing countries, especially those that operate in relatively rural regions. To secure greater access to financing and compete with their more established counterparts, microenterprises must be well equipped with the appropriate competencies and adequate information about the financing channels and facilities available in the current microfinance market. Given the significance of this sector to entrepreneurial activities and economic growth, it is also critical that current policymakers and funding providers understand the underlying attributes that drive the financing preference of microenterprises.

The empirical evidence also contributes to the limited but growing literature on financing preferences by identifying the determinants of financing preferences among microenterprises in developing countries, especially in more rural regions. In this way, it provides valuable input to funding providers and policymakers as they formulate new financing policies and financial assistance schemes relevant to the current needs of microenterprises. Financing policies for microenterprises should align with the evolving needs of owner-managers from this sector. In addition, the gap between funding providers and microenterprises should be gradually reduced by developing financial systems that are informative and adaptable to local business needs. Beyond the banking industry, the responsibility of non-bank financing agencies, such as co-operative society commissions and government micro-finance agencies, should be heightened in addressing micro-sized businesses' financial difficulties. This entails the use of leasing, factoring and market-based financing, such as crowdfunding and peer-to-peer lending, as substitute means of financing for micro businesses that lack ample financial records. Enhancing knowledge of appropriate funding sources and access to external finance at an acceptable cost will facilitate greater productivity and growth. A comprehensive review of government and financial institutions' policies to increase access to finance for the microenterprise sector is therefore imperative.

The primary limitations of this study concern the extent to which the findings can be generalised outside of the location where the research was undertaken as well as the small sample size, which might bias the results. Although knowledge about the characteristics and financing behaviour of businesses is considerable, this knowledge remains imperfect, and additional studies should be conducted to understand the finance behaviour of microenterprises. Future studies should include a wider sample of microenterprises to better reflect the actual financing preferences among microenterprises. Because our findings' understanding of the determinants of financing preferences among microenterprises is limited to six managerial variables, subsequent research should also be undertaken to examine other factors that may influence the financing preferences of microenterprises or the SME sector in general.

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Author details

Shafie Mohamed Zabri¹

Kamilah Ahmad²

E-mail: kamilah@uthm.edu.my

ORCID ID: <http://orcid.org/0000-0002-6358-3077>

Siti Azirah Adonia²

¹ Faculty of Technology Management and Business, Universiti Tun Hussein Onn Malaysia, Johor, Malaysia.

² Faculty of Technology Management and Business, Department of Production Management and Operations, Universiti Tun Hussein Onn Malaysia, Johor, Malaysia.

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Appendix

Table 9. Independent samples test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Diff.	SE. Diff.	95% CI of the Difference	
									Lower	Upper
Owner Age	Equal variances assumed	1.29	0.26	.40	184	.69	.06	.16	-.26	.39
	Equal variances not assumed			.40	183	.69	.06	.16	-.26	.39
Experience	Equal variances assumed	0.16	0.69	.00	184	1.00	.00	.18	-.36	.36
	Equal variances not assumed			.00	184	1.00	.00	.18	-.36	.36
Business Age	Equal variances assumed	0.48	0.49	-.20	184	.84	-.03	.16	-.36	.29
	Equal variances not assumed			-.20	184	.84	-.03	.16	-.36	.29
Sales	Equal variances assumed	1.33	0.25	-.22	184	.83	-.02	.10	-.21	.17
	Equal variances not assumed			-.22	182	.83	-.02	.10	-.21	.17
Growth	Equal variances assumed	0.46	0.50	.54	184	.59	.04	.08	-.11	.20
	Equal variances not assumed			.54	184	.59	.04	.08	-.11	.20
IEF	Equal variances assumed	1.63	0.20	.24	184	.81	.03	.14	-.24	.30
	Equal variances not assumed			.24	183	.81	.03	.14	-.24	.30
LOF	Equal variances assumed	1.61	0.21	-.03	184	.98	.00	.12	-.25	.24
	Equal variances not assumed			-.03	182	.98	.00	.12	-.25	.24
NET	Equal variances assumed	0.19	0.66	-1.58	184	.12	-.21	.13	-.47	.05
	Equal variances not assumed			-1.58	184	.12	-.21	.13	-.47	.05
EFP	Equal variances assumed	1.20	0.27	-1.30	184	.20	-.27	.20	-.67	.14
	Equal variances not assumed			-1.30	184	.20	-.27	.20	-.67	.14
Chi-Square Tests		Early	Late	Total		Pearson Chi-Sq.	df	Sig. (2-sided)		
Sector						5.475	4	.242		
Retail/wholesale		44	53	97						
Manufacturing		12	15	27						
Construction		9	3	12						
Service		24	17	41						
Agriculture		4	5	9						

(Continued)

	Levene's Test for Equality of Variances			t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Diff.	SE. Diff.	95% CI of the Difference	
									Lower	Upper
Total		93	93	186						
Gender						0.088	1	.766		
Male		38	40	78						
Female		55	53	108						
Total		93	93	186						



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