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The impact of owner-manager characteristics on the financing choices of Moroccan SMEs.

Auteur 1 : DIDI SEDDIK Mohamed Mouad
Auteur 2 : EL ADRAOUI Fatima Ezzahra
Auteur 3 : KHALOUKI Hassan

DIDI SEDDIK Mohamed Mouad, (PHD Dr. In Economics and Management)
Moulay Moulay Ismail University, Morocco
faculty of law, economics and social sciences, Meknès

EL ADRAOUI Fatima Ezzahra, (PHD Dr. In Economics and Management)
Moulay Moulay Ismail University, Morocco
faculty of law, economics and social sciences, Meknès

KHALOUKI Hassan, (Professor of Higher Education)
Moulay Moulay Ismail University, Morocco
faculty of law, economics and social sciences, Meknès

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Abstract

In recent years, a great deal of research and several studies have been devoted to corporate finance, a fast-growing and ever-expanding field, but one that is much more interested in the study of large companies than SMEs. Certainly, few studies have specifically examined SME financing and how the characteristics of managers influence the financial choices of Moroccan SMEs. While SMEs play an essential role in economic and social growth, this article first reviews theories concerning the financial structure of SMEs, and then summarizes initial research on the impact of owner-manager characteristics on the financial choices and decisions of SMEs worldwide. Finally, it presents the methodological framework of the study and proposes a conceptual model of the research.

Keywords : corporate finance, SMEs, financing options, financial structure, owner-manager

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Introduction

The foundations of economic-financial thinking are based on several currents, of which three dominate: the Modigliani and Miller model, the optimal debt ratio theory, and the hierarchical financing theory. The review article by Harris and Raviv (1991) highlights the lack of consensus on the factors determining corporate financial behavior.

Indeed, the majority of theories on corporate financial structure and most empirical studies (M. Dubois, 1985; J. Bourdieu & B. Colin-Sedillot, 1993; R. Rajan & L. Zingales, 1995; Gaud P. & Jani E., 2002, etc.) focus mainly on large and listed companies, attempting to identify the main determinants of indebtedness. However, the empirical literature on the financial structure of small and medium-sized unlisted companies remains far less developed, constituting a neglected aspect of this vast scientific field (Fathi & Gailly, 2003).

Denis (2004, p. 303) observes that, historically, the theoretical framework of corporate finance had little application to SMEs, which constituted a separate field of research from that of large corporations and listed companies. However, this separation is tending to fade, as SMEs now encounter issues similar to those addressed by classical financial theory, such as agency problems and information asymmetries. Thus, recent research on the financial structure of SMEs (Ziane Y., 2004) draws directly on the same theoretical and empirical foundations as those concerning large corporations and listed companies.

Certainly, the choice of capital structure is of crucial importance, so much so that many failures of small and medium-sized businesses are attributed to an inadequate or inappropriate capital structure (Chaganti et al., 1996). Since small businesses differ from large companies in many respects, they use different financing options and methods (Heyman et al., 2008). Unlike large, publicly listed companies, SMEs differ from large companies in a number of ways, such as ownership structure, limited sources of financing and lack of access to capital markets, as well as the concentration of power and ownership in the hands of the owner-manager. As a result, they are more dependent on internal resources and short-term debt, more volatile, less indebted and more prone to bankruptcy (López-Gracia & Sogorb-Mira, 2008).

In this sense, the leading role played by managers in mobilizing financial resources within companies has been the subject of numerous studies in the literature. Pioneering research, such as that by (Demsetz & Lehn, 1985), has revealed that the financing decisions made by managers can have a significant impact on the value of the company, and consequently, on the interests of shareholders. t is therefore crucial to identify the personal traits of the owner-manager, and how these can play a decisive role in influencing the choice and financial decisions of SMEs (Irwin & Scott, 2010). This influence is explained by the owner-manager's central position within the SME, as the main decision-maker.

Moreover, despite advances in this field, few studies have focused specifically on the case of Morocco and how the characteristics of managers can impact the financial choices and decisions of Moroccan SMEs. The latter play an important role in the economic growth process, helping to create employment opportunities, improve regional economic balance and promote the efficient use of resources (Mouad. D et al, 2024).

This gap in the literature underlines the importance of in-depth research to better understand this complex dynamic and provide practical guidance to entrepreneurs, investors and policy-makers. This makes any new study seeking to understand the basis on which corporate financing decisions are made in practice all the more interesting, particularly in the Moroccan context. Thus, this study is a continuation of previous research, with the aim of exploring in depth the influence of manager-owner characteristics on SME financing choices and decisions in Morocco.

Within this framework, this article proposes a rigorous synthesis of the literature concerning the attributes of SME owner-managers and their impact on financial decisions and preferences.

To this end, we will first present the main theories of SME financial structure. Next, we will summarize the various research studies relating to the main characteristics of SME owner-managers and their impact on the financing choices and financial decisions of this category of company. Finally, we will outline the methodological framework of the study and the conceptual model of our research.

1. Literature review

The capital structure represents a permanent source of financing in the form of retained earnings, long-term debt and shareholders' equity. Over the past fifty years, the literature on financing choices has gradually become part of a very broad stream of research, with often divergent conclusions (Croquet & Heldenbergh, 2008). A reading of the literature reveals many implicit and explicit facts about the financing decisions made by companies in general.

1.1. Theories of SME financial structure

The seminal article by (Modigliani & Miller, 1958) forms the basic foundation of capital structure theories. Modigliani and Miller's remarkable work, which laid the foundations for

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irrelevance theory, asserts that, under perfect market conditions, capital structure does not affect the value of a company. The idealistic assumptions of the irrelevance theory of capital structure forced researchers to rethink the importance of financing decisions in relation to company value. This has led to the development of alternative theories of capital structure.

The current state of capital structure analysis covers a wide range of approaches, but there is no universal theory concerning the choice between equity and debt, or even recourse to the capital market (Myers, 2001).

We distinguish two main approaches to the financial structure of capital: trade-off theory (TOT) and pecking order theory (POT).

1.1.1 Trade-Off Theory (TOT)

This theory is part of the literature initiated by (Modigliani & Miller, 1958), based on strict assumptions - namely, perfect capital conditions, the absence of tax, agency and transaction costs - and demonstrates that financial structure is neutral with regard to firm value. Later, (Modigliani & Miller, 1963) revised this assumption of neutrality of financial structure to bring their theory closer to corporate reality, by integrating the effects of taxation on firm value. In this framework, the value of an indebted company is equal to that of an unindebted company, increased by the tax savings achieved through indebtedness. Indeed, the market value of indebted companies is maximized by the deductibility of interest charges. Since interest is deductible from taxable profits, companies are encouraged to take on debt rather than equity, whose remuneration is not deductible. As a result, the value of an indebted company is higher than that of a non-indebted company, since the tax savings accrue exclusively to the company itself, without affecting employee income (M. H. Miller, 1977).

Since then, numerous theoretical and empirical studies have been carried out, amending this model. The existence of bankruptcy costs (Stiglitz, 1969) suggests an equilibrium between the value of the company and the tax advantage; leading theoretically to the determination of an optimal debt level when the marginal benefits associated with the tax refund (associated with the deductibility of financial charges), are equal to the marginal costs associated with the increased risk of bankruptcy due to high indebtedness. However, it is unrealistic to think that the company can consistently achieve this optimal structure. In reality, the company is subject to shocks, and the adjustment of the actual structure to the optimal one cannot be immediate (Myers, 1984).

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Similarly, abandoning the assumption of the absence of agency costs substantially alters the scope of the construct, paving the way for the theoretical existence of an optimal capital structure. Agency theory, developed by (Michael & William, 1976), identifies two major types of conflict: one between the principal (shareholders) and the agent (managers), resulting from the fact that managers' interests do not perfectly coincide with those of shareholders; the other between creditors and shareholders (Harris & Raviv, 1991). These divergent interests inevitably generate agency costs, which in turn affect the company's financing. Conflicts between shareholders and creditors arise because of the priority given to creditors in the event of bankruptcy. Thus, an optimal debt ratio is achieved when these agency costs are minimized.

On the other hand, SMEs often have little or no exposure to agency costs between managers and shareholders, the latter being generally confused, since managers are frequently the owners, except when the company belongs to a group. However, agency conflicts do arise between owners and lenders. The lender (principal) finds it difficult to monitor the decisions and actions of the owner-manager (agent) of a small business, mainly due to a lack of transparency in information systems, which generates agency costs (Cieply, 1997).

1.1.2 Pecking Order Theory (POT)

(Myers & Majluf, 1984) developed the theory of hierarchical order (POT), based on the asymmetry of information between internal stakeholders (owners and management) and the company's external stakeholders (financial backers). This theory postulates that managers adopt a financial policy aimed at minimizing the costs associated with information asymmetry, particularly those associated with adverse selection, by favoring internal financing over external financing. According to this theory, companies follow a financial hierarchy to finance their investments: first they prefer self-financing, then recourse to debt, and lastly, the issuance of equity. This behavior enables them to avoid a fall in share prices, to limit dividend payouts in order to strengthen cash flow, and to reduce the cost of capital by limiting recourse to credit as much as possible. As a result, companies find it costly to issue shares, and follow an orderly sequence of financing. As a result, profitable companies have more abundant internal financing.

In this context, there is no optimal financial structure, nor any predefined target debt-to-equity ratio. Financial management therefore takes two distinct perspectives: on the one hand, how to finance a deficit when internal cash flows prove insufficient to cover the company's needs; on the other, how to manage a surplus in the opposite case, i.e. when the funds generated exceed the company's needs. Consequently, “the theory of hierarchical financing does not rule out the issue of capital. It is only conceivable if the issue price is high enough not to hurt existing shareholders, or if management does not have information it does not wish to disclose to the market" (Molay, 2005, p. 158).

(Ang, 1991) and (Holmes & Kent, 1991) point out that the theory of hierarchical financing (POT) applies to SMEs, with the exception of subcontracting or group-owned SMEs (Kremp & Phillippon, 2008). In contrast to the search for an optimal financial structure, SMEs favour an order of preference when it comes to financing: they favour internal financing over external financing, and debt over share issues. When it becomes necessary to finance investments that exceed their internal cash flow, SMEs may consider taking on debt, although they face transaction costs in their credit relationships. These costs can be zero for internal funds (cash flow), moderate for debt, and higher for issuing new shares. SME managers aim to maximize their own wealth while retaining decision-making control over external players. Consequently, they will give priority to internal resources to finance their needs, and in the event of a shortfall, will opt for debt rather than a capital increase.

Certainly, the specific characteristics of SMEs are to some extent in line with the findings of traditional cultural expressions and behavioral finance. On the one hand, the rationality of owner-managers is limited, increasing the risk of error as decisions are centralized in their hands. On the other hand, the strategies adopted by these companies tend mainly to favor the interests of the owner-manager and former shareholders. What's more, SMEs are often faced with insufficient equity capital and limited access to capital markets.

The management of SMEs, centralized around the entrepreneur, gives the latter an essential role in the life of the company. The entrepreneur's profile is a determining factor in financing decisions and SME development. This is why, in the following section, we will analyze the influence of owner-manager characteristics on the financing choices of small and medium-sized businesses.

1.2. Determinants of owner-manager financing decisions

Based on the analysis of previous studies of managerial characteristics and corporate finance practices, this section looks at some of the managerial characteristics (such as gender, age, level of education, work experience) that have frequently been exploited in previous research to assess the degree of managerial preference for different sources of finance.

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1.2.1. The Genre

Numerous studies in the corporate finance literature focus particularly on the relationship between the gender of the owner-manager of SMEs and the choice of financing. This research highlights the marked differences in financing opportunities available to men and women.

(Coleman & Cohn, 2000) highlight the potential influence of gender on capital structure and financing, influenced by factors such as credit discrimination, risk aversion and associations between capital levels. These findings show that male managers mobilized greater amounts of capital than their female counterparts in setting up the business and in establishing sustainable financial arrangements.

Similarly, (Verheul & Thurik, 2001) noted general divergences between male and female entrepreneurs in terms of their business financing methods, with female SME owners appearing to start out with less start-up capital. In this sense, women-led SMEs launch their businesses with less than half the capital invested by men, and encounter more difficulties in terms of credibility when dealing with banking institutions (Alina, 2011).

At the same time, (Watson, 2006)) found a correlation between the debt/asset ratio and company growth, in relation to the gender of the owner. The results showed that female owners seem less inclined to borrow than their male counterparts. Moreover, (Coleman, 2007) also provided evidence of discrimination in the granting of credit to female entrepreneurs, who are often charged higher interest rates and required to provide additional collateral.

Furthermore, the study by (Scott & Irwin, 2009) concluded that the characteristics of owner-managers, including their gender, influence the use of external advice, which in turn could reduce the difficulties faced by UK SMEs in raising finance. Similarly, research by (Mijid, 2009) found higher loan rejection rates and less frequent loan applications among female entrepreneurs.

However, (Coleman, 2000) has identified differences between female- and male-owned businesses in the use of various bank credit products. The results show that the gender of the owner is not a significant factor in predictive models of the use of various credit products, suggesting the absence of discrimination by lenders in access to capital.

In a similar vein, (J. G. Hussain et al., 2010) carried out an exploratory study into gender differences in access to finance in China. Their findings suggest that female entrepreneurs are just as likely as their male counterparts to obtain financing for their businesses. Indeed, both

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male and female entrepreneurs made equal use of their networks and connections to access finance. Overall, they conclude that there are no significant gender-based differences in network use and access to external finance among Chinese SMEs. (Irwin & Scott, 2010) also found in their study that female entrepreneurs have privileged access to banking services. However, this result was not statistically significant, leading to the conclusion that gender does not influence SMEs' access to bank financing.

In contrast, Yaldiz (2011) argues that to set up and run a business in a man's world, businesswomen can be considered more educated and talented than other businessmen. Consequently, he has empirically proven that women are likely to have a greater capacity to access formal credit.

Thus, on the basis of the above, the following hypothesis can be developed:

Hypothesis 1: The gender of the SME owner-manager influences his or her financing decisions.

1.2.2. Age

The age of managers appears to be an important factor in explaining the way in which a company is financed, and is a decisive criterion in determining the propensity of managers to become users or non-users of the credit market. Admittedly, a great deal of previous research suggests that the age of a company's manager can exert an influence on his or her financial decisions, since it can provide clues as to the owner's financing preferences. Certainly, it is often observed that entrepreneurs' personal financial orientations evolve as a function of their age.

This is based on the assumption that a particular age group tends to behave and have different preferences to other age groups. For example, it seems that older business leaders tend to take a more cautious (Nakano, M. and Nguyen, 2011) and reticent approach to bank borrowing). For example, older business owner-managers generally appear to be risk-takers and unwilling to use bank loans.

According to (Romano et al., 2001), the impact of owner-manager age on SME financial behavior is manifested by the fact that, unlike younger entrepreneurs, older entrepreneurs tend to be less inclined to invest additional funds in their businesses. This finding concurs with that of (Wijst, 1989), suggesting that older owner-managers are more reluctant to accept external participation in their company. In this sense, an older entrepreneur's motivation to run a business may be perceived as a mere hobby or a quest for exclusive power. These individuals generally have little interest in seeking or obtaining external financing.

In a similar vein, studies by (Robb & Wolken, 2002) demonstrated a significant relationship between managerial age and ease of access to bank financing for small and medium-sized enterprises (SMEs). In a similar context, (Nakano & Nguyen, 2011) argued that the older managers are, the more risk-averse they are and the less energetic they are at work. As a result, they seem to prefer to use their own funds rather than debt, demonstrating that age has a significant effect on the ability of the companies studied to access finance (Nguyen & Luu, 2013).

Furthermore, (J. Wu et al., 2008) found a correlation between the age of the manager and the company's financing arrangements, concluding that middle-aged managers have a better understanding of the financial system and are more inclined to benefit from bank financing. Furthermore, shedding light on the relationship between the financial growth cycle of SMEs and the life cycle of the owner-manager, (Briozzo & Vigier, 2009, p. 37) argue that, “As the firm and its owner age, information asymmetries diminish, facilitating access to debt, while the owner's risk aversion and personal costs of bankruptcy increase with age.

Furthermore, another study by (Abdulsaleh, Worthington, 2013) found that as the age of business owner-managers increases, information asymmetry decreases, resulting in increased access to bank loans. Consequently, certain implicit and explicit implications may affect the decision of both lender and borrower.

However, research carried out by (Buferna et al., 2005), concluded that the age of managers had no statistically significant correlation with the level of debt used. Similarly, (Romano et al., 2001) also found that the age of a company's manager was not a significant predictor of the company's use of debt.

Consequently, the following hypothesis is developed:

Hypothesis 2: The age of the SME owner-manager influences his financing decisions.

1.2.3. Level of education

The level of education of an SME's owner-manager is often considered an indicator of the company's human capital, and is frequently positively associated with the use of leverage by the company (Coleman, 2007). In a study of 4,400 small businesses, (Bates, 1990) found that owners with four or five years of higher education could access bank capital more easily.

(Storey, 1994) also argues that higher levels of education give entrepreneurs greater confidence in their interactions with bankers and other lenders when applying for loans, indicating that banks are more inclined to lend to owner-managers with formal qualifications.

In addition, research by (Coleman & Cohn, 2000) has highlighted evidence of a positive relationship between the manager's level of education and the granting of external loans. This finding is also echoed in the work of (Scott & Irwin, 2009), who emphasize that educational attainment reflects better human capital, translating into a favorable correlation with the company's access to credit, and consequently mitigating their financing difficulties. Education was also found to be a factor associated with rejection of financing in the sample studied, comprising both male and female managers (Sara & Peter, 1998).

In his study, (Watson, 2006) incorporates the owner's level of education as an indicator of the latter's human capital, and finds that the owner's level of education plays a significant role in explaining a company's debt/asset ratio. He highlights that, companies owned by owners with a higher level degree significantly exhibit higher debt ratios. Similarly, (Zhang, 2008) points out that entrepreneurs with higher levels of formal education are more likely to use formal financing. In this context, managers with higher levels of education are also more likely to benefit from bank financing (J. Wu et al., 2008).

Similarly, (Osei-Assibey et al., 2010) found in their study that the owner's level of education is closely associated with business financing preferences. They argue that the level of education tends to substitute for the need for collateral when setting up a business, reflecting the ability to repay the loan.

Similarly, (Kasseeah & Thoplan, 2012) suggest that the owner's level of education, which is measured by primary, secondary and tertiary education, contributes positively to SME performance. SMEs whose owners have a higher level of education appear to perform better, even after controlling for age, experience and employment level. A higher level of education enables business owners to better understand the requirements of running a business, and can help them to manage the various aspects of the business, including financing .

In addition, a study by (Sena et al., 2012) showed that, although not statistically significant, educational qualifications have a positive relationship with the use of external financing. SME owner-managers, regardless of the nature of their qualifications, show an increased propensity to seek external sources of financing.

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However, it has been observed that highly educated owners make less use of formal financing. A study by (Vos et al., 2007) revealed that less-educated SME owners actively use external financing, while their more-educated counterparts are less inclined to seek or use such means of funding. This has already been shown by (Le,Venkatesh & Nguyen, 2006), in asserting that owner education is negatively correlated with bank lending.

Similarly, it was observed that the level of education of the manager maintained a statistically significant negative correlation with his or her preference for external financing through share issues. This finding indicates that the more educated owner-managers are, the less likely they are to favor financing through share issues. This tendency may be attributed to the perception of equity financing as exposing the company to external interference in its management (Zabri et al., 2015).

On the basis of the above, the following hypothesis can be developed:

Hypothesis 3: The SME owner-manager's level of education influences his or her financing decisions.

1.2.4. Professional experience

The experience of owner-managers, measured in terms of the number of years spent in a given sector, can also be seen as a reputational indicator providing a positive signal about the quality of the company's human capital.

In particular, among young companies, entrepreneurs running businesses with a long history are more likely to rely on formal financing mechanisms (Zhang, 2008). Experience reflects strengthened human capital and favours the company's access to debt capital (Cassar, 2004), where managers with a greater level of business experience are found to benefit from bank financing (J. Wu et al., 2008).

The work of (Nekhili & Derbel 2007) also revealed a positive correlation between the manager's degree of professional experience and his or her ability to obtain bank credit. In fact, (Nofsinger & Wang, 2011) put forward the hypothesis that entrepreneurial experience is one of the factors explaining differences in the levels of external financing available to SMEs. The results of their study proved this hypothesis. They explained that prior experience in the sector is positively correlated with the proportion of external financing in the company, pointing out that the cumulative experience of the owner-manager plays a crucial role in resolving certain obstacles hindering SMEs' access to external financing, notably information asymmetry and moral

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hazard. From the lender's point of view, given that experienced entrepreneurs are assumed to perform better than their less experienced counterparts, it is therefore rational to take experience into account in the process of assessing the creditworthiness of SMEs (Gompers et al., 2010). In a similar vein, Thanh et al. (2011) found that the experience of the business owner significantly reduced the probability of rejection of a bank loan.

This highlights the fact that experienced SME owners are better equipped to understand the relationship between finance and business value. Thus, less experienced SME owners adhere strictly to a hierarchy of adaptation to the business environment, exhausting all internal financing options before turning to external sources. More experienced SME owners, on the other hand, are more likely to opt for external sources of financing, mainly in the form of debt, with the aim of optimizing the value of their business.

However, (Cassar, 2004; Scherr et al., 1993) have identified a significant and negative relationship between years of experience and the use of external debt. Their research indicates that owner-managers with greater experience tend to be more risk- and control-averse, and therefore less inclined to use debt financing than their less experienced counterparts. It is well established that experienced owner-managers are able to run their businesses with more limited financial support than less experienced ones.

Furthermore, according to (Rand, 2007), there are likely to be negative correlations between being highly or moderately skilled and access to credit, reflecting the fact that more skilled owners have less need to take on debt and finance themselves with internal funds, or that more educated and experienced owners are more likely to know when their application will be rejected and therefore refrain from submitting it. On the other hand, (Coleman & Cohn, 2000) found no significant influence of managerial experience on the use of external debt.

Based on the above, we have formulated the following hypothesis:

Hypothesis 4: The SME owner-manager's professional experience influences his or her decision-making when it comes to financing choices.

2. research methodology

For this study, we will adopt a research methodology based on a qualitative approach that does not privilege statistical analysis, but rather seeks to identify, understand and interpret the social mechanisms that underpin the structure and functioning of social relations, drawing on theoretical samples that reflect the diversity of occurrences that the social phenomenon under study can take on (Sophie Alami et al., 2013: 4).

2.1. Data collection tools

Our qualitative study will be carried out using qualitative semi-directive interviews to collect data from a sample of 20 Moroccan SME owner-managers, in order to contextualize our research. Data processing will follow a thematic content analysis using New Nvivo 14 software.

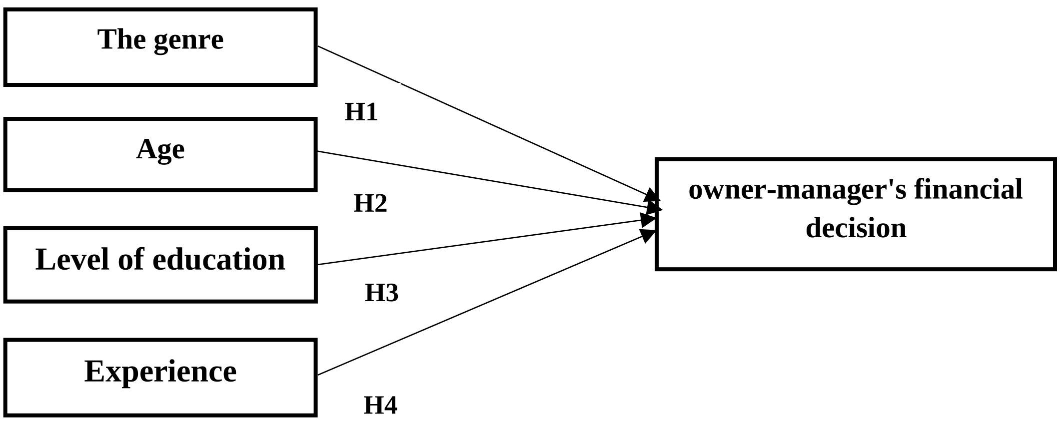
This data collection technique is widely used in qualitative research in the social sciences. The main aim of interviewing, whatever its specific form, is to produce data that will enable us to better understand the singularity of the experience that individuals or groups of individuals have of their relations with others, with institutions, or, more generally, of their perception of social phenomena (Pin, 2023).

2.2. Conceptual model

Although many variables can influence the financial decision-making of SME owner-managers, it may be necessary to consider only a certain number of variables to predict behavior in a given population (Fishbein & Ajzen, 1977). To develop the proposed model, only the human capital characteristics of SME owner-managers were taken into account in this study, focusing on the owner-manager's gender, age, level of education and level of experience. In this study, these variables will be used to investigate their influence on the financial decision of Moroccan SME owner-managers.

The following figure shows the conceptual model of our research.

Figure N°1 : Conceptual research model



Source : Authors

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This conceptual model relies on the analysis of our research variables (gender, age, education and work experience) to explain how these personal characteristics of owner-managers can influence their financial choices and decisions in the context of Moroccan SMEs.

Conclusion

Reviews of previous literature on owner-managers' financing preferences and choice, indicate that entrepreneur-managers are often considered to have their own approach to financial and strategic choices, etching their capabilities onto the organizations they oversee. They highlight the significant influence of owner-manager characteristics on SME financing practices and decisions.

Certainly, the personal characteristics of the owner-manager are considered relevant indicators for understanding the overall capital structure decision within SMEs. Integrating these aspects into the study of SME financing choice is of crucial importance, not only to gain a clearer and deeper understanding of the capital structure of these companies, but also to improve knowledge of how these aspects influence SMEs in their financing decision and subsequently in the company's capital structure.

Attributes such as gender, age, education and experience were used to identify factors influencing managers' financing preferences and choice for the different sources of finance (internal equity finance, external finance) available to SMEs. As a result, this would enable a better understanding of their financing behavior, in order to develop a global awareness of SMEs' financing needs and improve the way financial services are provided to them, thus contributing to a comprehensive understanding of SMEs' financial practices and decisions.

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