

An Empirical Study on Capital Structure in Small and Medium Enterprises

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ABSTRACT

Small and Medium industries are significant industries for industrialized and less developed nations, contributing to economic creation and employment. The sector employs millions of people across the world and is dominated by a high number of small and medium-sized enterprises. But globalization, intense rivalry, the revolution in information technology, and the increasing sophistication of customers are creating a strain on small and medium value chains. Over the last decade, the industry has faced the problems of fluctuating customer demands, short product lifecycles, and limited predictability. Delivering low-cost high-quality goods in a shorter amount of time are the greatest challenge for the SME's. Therefore, it is vital to alter and enhance the current production by utilizing tactics that meet the needs of worldwide customers. However, manufacturers confront significant obstacles in deploying new systems, including limited financial resources, a lack of employees and time, little or no experience, and low confidence. Manufacturing is a complicated process, and capital generation is an important part of it. But due to many logistical, financial, and other issues, many firms fail to fulfill the necessities of the situation and thus incur losses. The need to incorporate the production process with lead time management can minimize the time wasted because of technical glitches and sampling issues and generate more capital for the enterprise.

Keywords: small and medium enterprise, capital, industry, manufacturing, financing

I. INTRODUCTION

Research Background

India is quick getting to be a standout amongst the most lucrative choices for manufacturing industry to flourish. The current research caters to think about the ebb and flow manufacturing strategies inferred by India for its growth in the manufacturing sector. An investigation was done on the components which influence the manufacturing sector in various states the nation over. Good infrastructure, consistency to tax and labor laws and meeting the coveted natural measures were a portion of the elements in charge of better performance of states like Madhya Pradesh and Andhra Pradesh." International Monetary Fund (IMF) raised worry about the pace of the changes which are being passed.

They brought up that Indian economy is confronting "decelerating pace of changes". As of late the since a long time ago held up GST charge had been passed by the government of India which would empower a simple and a cost-cutting stream of goods crosswise over various conditions of the nation. It displays a brilliant open door for the manufacturing sector to restore the strategic sector of the nation. A solid infrastructure is a basic element for any manufacturing sector to grow. The same number of industrial halls and street networks quickly are being shaped, this research centers around how these networks are taking into account the growth of this sector. From this research, we discovered how new laws particularly ashore and labor combined with constant change in the infrastructure is supporting India to rise as the new manufacturing sector center point.

Manufacturing has generally expected a key part in the monetary growth of creating countries. This examination explores whether the low levels of industrialization in creating countries owe to whole deal changes in the development properties of manufacturing or the manufacturing fragment's general overall prospects. The examination's disclosures exhibit that the lessening in both manufacturing regard included and manufacturing business shares in numerous creating countries has not been caused by changes in the manufacturing division's development potential, yet is fundamentally caused by the failure of manufacturing development in endless countries against the setting of brisk manufacturing development in couple of countries, consequently achieving a merging of manufacturing practices in the Indian subcontinent.

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To obtain a competitive advantage, fast fashion focuses on responding rapidly to shifting trends and consumer expectations. The origins of fast fashion can be traced back to the creation of Quick Response. QR is when businesses attempt to meet customer demand by providing the appropriate quantity, variety, and quality at the proper time, location, and price. For contemporary retailers, rapid fashion has been the key to their success (Slovic, TomaSevic, 2016). Due to this, the sample manufacturing department in a company is one of the most crucial departments for fast fashion success. In order to maintain a competitive advantage in a market where fast fashion applications are prevalent, sample production techniques must be fast and efficient.

The purpose of sampling is to gain bulk orders for the manufacturer. At the same time, the exporters can also evaluate their yarn consumption and potential costs for developing fabrics. Only the exporter can sample to optimize processing parameters. Pre-production delays extend the timeline for activities by days, resulting in losses for everyone in the process (Yadav, 2013).

The modern economic growth originates from industrialization. Industrialisation offers ascend to high rates of growth in per capita genuine wage and this watched relationship is summed up in the saying of 'manufacturing as the motor of growth.' Modernisation, urbanization, mechanical advance, change in the way of life and so on all oblige industrialization and the speed of their events is related to a quicker growth of industrial sector. We endeavour a similar audit of the growth performance of manufacturing industry in Madhya Pradesh by dissecting growth rates in some key factors like value-added, yield and work by produce since the eighties.

There is a typical conviction that India is industrially in reverse and the growth of its manufacturing sector is moderate. In spite of the fact that the structure of the economy has experienced some change set apart by the decrease of the essential sector and an expansion in the offer of the optional and tertiary sectors, it's anything but a process of industrialisation that has gone about as a springboard to invigorate growth in the auxiliary and tertiary sectors. To give a few points of interest, in 1980, the state represented 3.61 percent of enlisted processing plants, 7.04 percent of settled capital, 4.21 percent of aggregate industrial work, 4.01 percent of gross yield and 5.09 percent of value-added by make in the nation all in all.

There has been some expansion from that point forward however not sufficiently vast to constitute a critical change; the offer at display stands just 3.12 percent for number of industrial facilities, 5.09 percent for settled capital, 4.67 percent for work, 5.36 percent for yield and 5.49 percent for value-added in the production line sector. Madhya Pradesh industrial performance estimated by any parameter has been on the low side. In this part, we have made an interpretive examination of the industrial growth in Madhya Pradesh utilizing the customary devices of observational investigation and a between territorial system amid the post advancement period. The fundamental target of the investigation is to assess the viability of advanced approach to advance industrial growth in the Indian subcontinent .

Well, known rationalist, Aristotle, stated, Man is a social creature. Gone are simply the days, when individuals could be - dependent and independent in addressing their requirements of survival. Today, the general public has come to gain a worldview of between reliance on the goal that each is subject to another for the fulfilment of their needs. This has finished into a circumstance where partnerships and the public identify with each other. There is not an individual or an association, which can achieve their objectives without the assistance from the public.

Businessmen rely upon clients for deals and benefits; associations rely upon representatives for profitability and nature of their items; industry depends on a few architects and talented people to create items that fulfil human needs, similar to food, attire, autos, and homes; society relies upon the government to give utilities, and peace; the more youthful age relies upon schools and universities for instruction and professional success; and people of any age rely upon religious organizations for profound and moral direction.

All these have finished into an incredible requirement for relationships and interchanges among all individuals at all levels. The introduction of vote based systems worldwide and the idea of capacity to the general population have produced the significance of individual's assessments on different issues concerning mankind. Today, matters are not settled by the utilization of power or wars, however by the trading of thoughts and suppositions, prevalently called public sentiment. In that capacity, our general public can be said to have been organized into supposition bunches sharing different values and thoughts among the group individuals.

At no other time in history has the assessment of an individual or groups of individuals or public been more fundamental to the achievement of business, social, religious, and political organizations than at show times. The between reliance on individuals, organizations, governments, and social and religious associations, has brought forth another reasoning and a component of administration, which has come to be known as public relations.

Growing customer demand results in shorter product life cycles, making time a vital consideration for branded shops. They must always deliver new and creative items while reducing costs (Kurt Salmon, 2012). This has become an issue for branded shops because it is always difficult and expensive to match consumer demand (Stromquist, 2008). Therefore, retailers must have an efficient sample process, as it is during this stage that merchants have the option to make adjustments.

In this study, we will try to conduct a survey and analyse the possible factors responsible for the delay in the sampling of SME firm in order to devise strategies to minimise the losses incurred by the SME's as a result of the delay in the process of capital generation and to make the entire process from sampling to distribution more streamlined and effective and hence streamline the capital structure of the firm as well.

II. OBJECTIVES

The primary and secondary objectives of the project are as follows-

Primary Objective

The research aims to analyse the factors responsible for developing capital structure in SME's and devise a mechanism to improve the existing procedure.

Secondary Objective

- To analyse the Project Development (PD) process
- To understand the capital development structure of SME's
- To understand why the SME's are facing the problem of delayed capital.
- To understand the mechanism of production and the obstructions in the company process.
- To create a blueprint for the company to improve the situation of capital inflow.

III. LITERATURE REVIEW

In their sample of mature US corporations, **Shyan - Sunder and Myers (1999)** argue that the pecking order hypothesis is an appropriate first-order description of corporate finance behaviour. **Frank and Goyal (2003)** validate the POT found in large enterprises in the United States. Debt finance is used less frequently by high-growth enterprises (Barclay and Smith, 2005). Asset structure, profitability, and growth, according to **Cassar and Holmes (2003)**, are major factors of capital structure and financing in Australian enterprises. In a pecking order paradigm, Lemmon and Zender (2004) experimentally investigated the impact of debt capacity factors on financing decisions. They demonstrate that the pecking order hypothesis is a good predictor of financing behaviour using a sample identical to Frank and Goyal (2003). **Bhaired and Lucey (2006)** employed multiple regression analysis to examine the applicability of POT to SMEs and discovered a link between age, size, sector, growth potential, and the collateral used to get financial finance. Zoppa and McMahon (2002) investigated the pecking order theory of company financing in 871 manufacturing SMEs and discovered that the manufacturing SMEs use pecking order financing.

According to **Myer (2011)** in his 'Theory of Merchandising', the process of product development and sampling can be defined as a sum total of planning in a careful way, efficient styling and ability to produce, sample and sell in the designated way. By this definition, the primary mission of today's merchandisers seems unchanged. They continue to play an important role in the exchange process by providing consumer products. In SME's most of the costing and capital dissemination is posited towards sampling and product planning.

According to **Wadell (2007)**, capital generation is not just a financial but rather caused by various psychological problems, stemming out from the nature and lack of organization in many of the SME's which hamper the productivity of an organization, and it is the responsibility of a good manager to ensure that the delays can be minimized and productivity can be enhanced.

According to **Yilmaz, Acagun, and Dal (2012)**, the product design department should be integrated with research and development department, as this is where prototypes are designed and prepared for sale and manufacturing. Unfortunately, in most of the SME's, not much funding is available or provided to cut down the cost of the production to enhance profits. Capital generation, branding and effective organization are three crucial steps in production development. Once the two-dimensional shapes have been confirmed and the specification sheets have been drafted, the development of samples is a crucial aspect of meeting agreed-upon delivery dates.

According to **Slovic (2016)**, the delay in the production can be attributed to lack of incentive among the workers for efficient working. He proposes that the problem can be overcome by the combination of a gain sharing plan and ongoing process improvement which in the long run, will lead to increase in productivity of the firm.

According to **Kurt Salmon (2012)**, a number of merchants waste a significant amount of time creating information too quickly or waiting for information that is unavailable or created too late. He identifies six major factors responsible for wastage in the production process. These factors include- wastage in motion, wastage in transportation, wastage due to excessive inventory and overprocessing in production, due to internal defects, due to disconnect in knowledge and wastage of time due to logistical issues. The key to reducing lost time is to create a decision-making procedure that prioritises the longest aspects of a product cycle. For instance, waiting for materials could be the longest portion of the producing cycle and a significant issue for certain merchants whose material decisions are made late in the process. One solution that could save time for the shop, adjusting the process to a material-first strategy could be an option.

According to **Morgan and Liker (2006)**, waiting for a product to become available adds no value to the production process. They also lose time between when a product is adopted and when it is widely used. When a design is accepted and a manufacturing order is placed, the decision is often made. Much early than necessary, they are compelled to return and repair superfluous little errors. According to Morgan and Liker, this form of waste is rather simple to identify and even improve it.

According to **Hines et al. (2008)**, creating too much or starting production too early might result in an uneven flow of knowledge and good. This is the source of all other waste. The idle production capacity is preferable to overproduction. Additionally, overproduction will result in increased costs and decreased consumer satisfaction. Frequently, excess inventory results from overproduction, which refers to the residual products in the process.

According to **Juan Carlos Hiba (1998)**, many small or medium-sized garment industries fail to thrive or even survive, despite their significance. It is difficult to achieve success in the garment sector. Every year, financial, production, and marketing issues force hundreds to declare bankruptcy. According to studies, the average business loses half of its clients in five years and half of its employees in four.

According to **Manoj Tiwari (2013)**, Work sampling is a work measurement technique similar to time study with a stopwatch and data synthetics using PMTS (Predetermined Motion and Time Systems). It can highlight the proportion of time spent on an activity that is ostensibly non-productive or ineffective, allowing management to eliminate such inefficiencies. Work sampling reveals the amount of time spent in productive, related, or support activities, so it can be used to determine operator productivity factors.

Time studies are tedious, expensive, and require a lot of the observer's time, whereas work sampling is based on probability, statistical sampling, and random observations. Work sampling is "event probability." Work sampling observations require much planning and preparation before being carried out. Identifying all objectives clearly explains why this study is needed and what is expected. Before work sampling, pre-planning requires a full conversation with key individuals and authorities.

Leandro et al.'s (2018) work covers a search for the theoretical foundation of the Lean Manufacturing philosophy, followed by a textile firm diagnosis. **Md. Atikul Islam (2015)** and five others have discussed Industrial Engineering and Operations Management. Some main portions of the apparel manufacturing industry, including sampling & preproduction, cutting, sewing, finishing & packing, and changeover regions, were examined and their functions successfully implemented. **Md. Syduzzaman, et al. (2016)** provided a presentation on Total Quality Management (TQM) techniques. **Mohammad Abdul Baset and Md. Mominur Rahman (2016)** discussed the application of Industrial Engineering in the industry for lowering the cost of SMV and increasing productivity through the installation of effective line balance. Combining Theory of Inventive Problem Solving (TRIZ) with design for manufacture and assembly (DFMA). It is possible to use the concepts of Theory of Inventive Problem Solving (TRIZ) to overcome obstacles encountered when employing other industrial engineering concepts and methods. **Pranjali Chandurkar et al. (2015)** outlined the notion of Industrial Engineering as the key to enhancing the work nature and procedures of the SME sector.

Baker (1974) described production scheduling as "allocating resources over time to execute tasks." Setting and reviewing performance measures regularly helps meet delivery timelines. Use operation milestones to recognise their value. To complete the project on time and smoothly, milestones must be set for each process. These benchmarks, called operation due dates, divide task flow allowance by the number of operations.

Sawik (2003) presented an integer programming technique for Make-to-Order production scheduling with several due date-related performance criteria. Faulty equipment, unpredictable yields, human performance defects, order rate and size changes, and other factors generate production variability.

According to **Hopp(2000)**, when a virtually full-capacity production system is subjected to considerable unpredictability, waiting times may be greater than actual processing durations. Queueing theory predicts this.

IV. IMPORTANCE OF CAPITAL FOR MANUFACTURING IN SMALL AND MEDIUM ENTERPRISES

All things considered, manufacturing is an industry that has a tendency to be commanded exceptionally logical people who, in spite of their huge learning base and aptitude, may not be excessively worried about offering their rewards for so much hard work to whatever remains of the world. A recent report by the Hillsborough-Pinellas Manufacturing Gap Analysis uncovered that in light of this pattern, there is a noteworthy separate between the manufacturing industry and the training/mindfulness expected to increase new specialists and construct new income.



As the proprietor of a manufacturing office or plant, your claim to fame exists in the investigation of building in any case, that aptitude may not be sufficiently intense to expand mindfulness for your image and procure enthusiasm for the products you produce. The most intense sequential construction system hand device, notwithstanding when completely operational, is still "only a thought" without mindfulness. Luckily, there are strategies to better your manufacturing public relations. Like manufacturing, and public relations is a particular specialty with specific techniques, and actualizing a campaign is an awesome method to support your business-to-business deals. Here are some ways B2B PR can profit your manufacturing company.

Branding

As a manufacturer, your products can either be straight forward or, past confused. Specific, manufacturing PR experts can help make an interpretation of your specialized specs into more edible purposes of intrigue all while keeping up the essential data you need to grandstand to potential purchasers.

Face to Face Awareness

A beyond any doubt terminate method for achieving perfect contender for your manufacturing company, regardless of whether they're future workers or future customers, is to display at a public expo. Public relations authorities can help you in finding the correct demonstrate all while connecting the participants previously, amid and after the show.

Creditability

The exact opposite thing you need out of the informing for you manufacturing company is weakening. Given the profoundly particular specialty of the industry, a hokey campaign will cause more damage than good bet that as it may, specific effort utilizing technical white papers, public statements and master uncovered can help your company's validity among the industry. Manufacturing public relations doesn't need to be troublesome and with B2B public relations organizations like Ripley PR, it can really consistent. In case you're intrigued how PR can profit your manufacturing company, get in touch with

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V. ROLE OF CAPITAL IN SME ORGANIZATION

Small and medium-sized firms (SMEs) are critical for the growth and development of the Indian economy because they foster entrepreneurship, job creation, poverty reduction, and backward linkages (Kayanulad and Quartey, 2000; Tagoe et al., 2005). In India, SMEs play an important role in the economy, accounting for 82% of all enterprises, 20% - 40% of employment, and around 20% of GDP value added (Abeyratne, 2005). Furthermore, SMEs provide goods and services to many of the corporations that make up the Board of Investment (BOI) membership. Furthermore, according to the Department of Census and Statistics (2003), approximately 90% of SMEs are dispersed around the country. As a result, such SMEs have a strong potential for developing the rural economy. As a result, encouraging SMEs' growth and competitiveness would not only result in increased social and economic gains internally, but will also allow the private sector to participate in the global economy. However, the availability and accessibility of financial resources to support a variety of operational and investment needs within the SME sector has hampered this expansion process. Both demand and supply side variables have contributed to the country's funding problem. There is a substantial literature on business capital structure, and debt equity mix is one of the primary issues in corporate finance research. SME financing is based on the well-known fact that owners are extremely hesitant to give up control of their business and try to meet their financing needs in a pecking order, for which this study attempts to investigate the less studied demand side of capital structures of SMEs in the Indian context. Burger and Udell's (1998) financial growth cycle model is the most widely accepted concept of small firm capital structure. Many additional researchers have discovered that various characteristics of small businesses influence the sorts of finances used to fund the firm's activities (Romano et al., 2001). However, Burger and Udell's (1998) work, which posits that optimal capital structures vary at specific locations, appears to have grasped the essence of the problem.

VI. PROBLEM DEFINITION

The present study seeks to comprehend the problems encountered by the manufacturers in capital creation. The primary research questions are: what are the different challenges that companies face in capital generation? How can we achieve considerable production efficiency improvements in the industry through the combined use of gain-sharing incentives and continuous improvement in the process, thereby aiding in overcoming competition and production hassles?

VII. RESEARCH GAP

The issue of capital in SME's has become critical, particularly for small and medium enterprises. Thus, the present research fills the lacunae between the theoretical notions of production and its practical implications for industrial use. The present research will address the push and pull factors that influence the production processes and will focus on these enterprises. Despite its brand name, the SME's are facing a lot of problems in the sampling of their apparels because of problems in the supply of threads and sewing machines, and due to recurring logistical issues, even minor errors in their production and sampling processes impact their infrastructure and financial position in a major way.

VIII. NEED AND SCOPE OF THE RESEARCH

In the current scenario, cut-throat competition and a glut in the market have made it compulsory for the competitive firms to be accurate, fast-paced, and sincere in their manufacturing and export. Thus, the issues in capital and resultant delays can be detrimental for firms whose business is mainly centred on international supply chains, in which delays can hamper the sampling process. And thus, the current research is the need of the hour to tackle the capital problem.

IX. LIMITATIONS

- Limited time allotted to survey vendors and manufacturers.
- The implementation of the research will be limited to SME's only and doesn't reflect the universal system.
- The application of this research is focused only on the SME industry.

X. EXPECTED BENEFITS

- The research can be useful for SME's their exporters and distributors to improve upon their internal mechanisms.
- If the current research is implemented effectively, it can lead to the efficient planning of resources, reduce the time required to export goods, and eliminate shipping complications.
- Lastly, the project will help lower the capital delays and help the company lower its inventory and depreciation costs.

XI. SUGGESTIONS

- There is a need for quality control from the time of sourcing raw materials till achieving the finished garment.
- Checks and balances are to be installed at different levels of apparel manufacturing to avoid any discrepancy or error.
- Continuous and comprehensive auditing by SME's can save the company a lot of time and money and allow quality dispatchment at the right time.
- Make the workers and managers accountable to ensure timely sampling, manufacturing, and dispatchment of the orders.

XII. CONCLUSION

To conclude, manufacturing is a complicated process, and capital generation is an important part of it. But due to many logistical, financial, and other issues, many firms fail to fulfill the necessities of the situation and thus incur losses. The need to incorporate the production process with lead time management can minimize the time wasted because of technical glitches and sampling issues and generate more capital for the enterprise.

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