University of Zimbabwe

An investigation into the importance of Corporate Governance in Zimbabwean Small and Medium Scale Enterprises

By

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DEDICATION

I dedicate this project to my husband Francis and my sons Kudzaiishe and Anozivaishe.

DECLARATION

I, Josephine Mapingire do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements and References and comments included in the body of the report, and that this it has not been submitted in part or in full for any other degree to any other University or College.

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Students signature Date

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Supervisor's signature Date

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ABSTRACT

The study set out to investigate the importance of corporate governance in Small and Medium Enterprises in Zimbabwe. The main objective was to find out if there was a positive relationship between corporate governance practices and business performance. The sub-objectives were to establish if there was a link between the corporate governance principles, board independence, internal controls, disclosure and owner-manager separation with business performance. The research took a quantitative approach and used self-administered questionnaires as the research instrument. A sample of 110 questionnaires was collected from the Central Business District and surrounding industrial areas in Harare. Descriptive and inferential tests were performed on the data. The results indicated that the two independent variables internal controls and disclosure had positive relationships with business performance. Board independence and owner-manager separation had no significant effect on business performance. Amongst the demographic variables, educational qualification was an explanatory variable of business performance. The findings led to the conclusion that internal controls and disclosure are predictors of business performance and it is therefore recommended that they be implemented in SMEs. It is further recommended that the level of qualification be taken into account when SMEs are employing management as this has significant impact on the performance of the business.

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CHAPTER 1

1.0 INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

The need for good corporate governance is no longer restricted to public listed companies but applies to Small and Medium Enterprises (SMEs) as well, since the good corporate governance principles are invariably the basis for success in business (Ndagu and Obuobi, 2010). According to the United Nations Industrial Development Organisation (UNIDO) more than 90 % of businesses worldwide are SMEs and they also account for, on average, 50 % of GDP and 60 % of employment in the different countries (www.globalreporting.org/resource). SMEs have become a major source of employment in Zimbabwe, where the formal unemployment rate is occasionally estimated to be more than 95 % (Policy Brief No. 2, 2011). For this reason, it is imperative that a conducive operating environment is created for SMEs. This can be accomplished to a large extent, through fostering adherence to good corporate governance principles, which is generally viewed as stimulating increased investment into the businesses. A culture of sound business ethics aimed at the fulfilment of long-term goals for stakeholders is regarded in some literature as the outcome of good corporate governance in the listed market segment and indeed as the *sine qua non* of sound decision-making in SMEs (Mugwati and Nkala, 2012). It has thus been posited that the application of good corporate governance principles by SMEs has a positive impact on business performance and hence, contributes towards a country's overall economic growth. This appears to stem from the implicitly acknowledged positive relationship between good corporate governance and the efficient utilisation of corporate resources.

This study sought to investigate and test the thesis that adherence to good corporate governance principles leads to good business performance in SMEs. If there is a strong link between the two variables, then recommendations would be suggested for the SME sector to adopt the principles in order to grow and increase its contribution towards the country's Gross Domestic Product (GDP).

1.2 BACKGROUND TO THE STUDY

Strict adherence to good corporate governance principles is widely held as the driving force behind the phenomenal growth and success of SMEs in Dubai, where the SMEs account for 95 % of all the businesses there. In particular, this is generally credited with the overwhelming inflow of investments and financing into the sector. This is precisely because the strict observance of good corporate principles is seen as fostering greater accountability and transparency in the eyes of investors (www.hawkamah.org). Turning our focus to Africa, Abor and Biekpe (2007) studied how incorporation of corporate governance structures affects SMEs in Ghana. Their results indicated that board size, board composition, management skill level, CEO duality amidst a myriad of other corporate governance structures, has an impact on the profitability of SMEs in Ghana. In Zimbabwe, some studies were carried out by Magaisa, Duggal and Muhwandavaka (2013) on manufacturing SMEs and the results indicated that SMEs do not uphold corporate governance principles and there was a recommendation that they should be applied especially in the separation of owners from managers.

The study was carried out encompassing SMEs in different sectors to find out if application of corporate governance principles resulted in profitability of the organisation.

1.3 STATEMENT OF THE PROBLEM

SMEs in Zimbabwe contribute about 40 % to GDP and employ in excess of 5.7 million people (www.newsday.co.zw/2015/07/01/smes-contribute40% to gdp/). However, there is a high failure rate in SMEs and it is imperative that ways are found to turn around the sector since it plays a very important role towards the success of the economy. The ZIMRA Commissioner General, Mr Gershom Pasi at a Business Breakfast Talk Networking forum

(2014) bemoaned the lack of growth and development in SMEs which he said was caused by adverse characteristics which include non-adherence to tax laws, poor managerial skills, corruption, inadequate infrastructure, unpredictable environment and labour problems. He called for the establishment of an enabling legal, regulatory and administrative environment in addition to ensuring availability of finances to SMEs (http://www.zimra.co.zw/index.php?option=com_content&view=article&id=2124:turn-smes-into-large-enterprises-cg&catid=4:story&Itemid=85). Many SMEs in Zimbabwe are failing due to the way business is conducted in these organizations including cases where the owner of the SME is also the manager. Corporate governance structures which include the use of Boards of Directors may assist the organisation through introduction of new ideas, formulation and implementation of strategies that may lead to enhanced business performance. The study will, therefore, seek to find out whether there is a link between the use of corporate governance principles and the profitability or growth of the business and through this effort conscientise on the importance of corporate governance structures for the success of business in SMEs.

1.4 RESEARCH OBJECTIVES

The overall objective is: To examine whether there is a link between corporate governance and business performance in Small and Medium Enterprises in Zimbabwe.

The sub-objectives are:

1. To examine whether board independence has an effect on the profitability of SMEs.
2. To evaluate if separation of owner from manager has an impact on business performance.
3. To find out if the existence of internal controls has a positive effect on business performance.
4. To establish if disclosure has a positive impact on business performance.

1.5 RESEARCH QUESTIONS

The overall question is: Is there a link between corporate governance and business performance in Small and Medium Enterprises in Zimbabwe?

The sub-questions are:

1. Does board independence have an effect on the profitability of SMEs?
2. Does the separation of owner from management have an effect on business performance?
3. Does the implementation of internal controls have an impact on business performance?
4. Does disclosure by an SME have a positive effect on its business performance?

1.6 HYPOTHESIS

Corporate governance structures in Small and Medium Enterprises have a positive relationship with business performance. Four sub-hypotheses emerge from the main hypothesis in relation to the objectives of the study as follows:

H1: There is positive relationship between board independence and business performance in SMEs.

H2: There is a positive relationship between owner-manager separation and business performance.

H3: Internal controls have a positive impact on the business performance of SMEs

H4: There is a positive relationship between disclosure and business performance.

1.7 SIGNIFICANCE OF THE STUDY

Corporate governance studies done on SMEs in Zimbabwe have focused on whether the structures exist in SMEs in the manufacturing sector (Magaisa *et al*., 2014). The present study, however sought to examine the relevance of corporate governance in those SMEs that practise it by seeking to find out if the presence of corporate governance structures positively impacts business performance. This study will further contribute to the intellectual debate by focusing on the exploration of the link between corporate governance and corporate performance in SMEs specifically where issues such as owner-manager separation, board independence and disclosure would be studied in depth to find out if they have any effect on SME profitability. The researcher would benefit through acquiring an in-depth understanding of corporate governance in the organisations and also improve research skills, through conducting this study. The relevant organisations in which the study would be conducted would benefit through the policy recommendations the researcher would come up with. The study would also contribute to the body of knowledge through provision of empirical data on corporate governance in SMEs in the Zimbabwean context.

1.8 LIMITATIONS

The collection of data was constrained by the time component. Furthermore, some respondents were reluctant to spare some time to answer the questionnaires. Lack of adequate financial resources especially in the collection of data was also a limitation.

1.9 SCOPE OF THE STUDY

The study was confined to some selected SMEs in the Harare Metropolitan area mainly in the retail, services and manufacturing sectors.

1.10 DISSERTATION STRUCTURE

The dissertation was divided into 5 chapters. Chapter 1 is the introduction which consists of the background to the study, statement of the problem, objectives, research questions, hypothesis, significance of the study, scope of study and limitations. Chapter 2 was the literature review and conceptual framework. Research methodology is contained in chapter 3 where research philosophy, approach and the research strategy was identified. In addition there is research design, methods, target population, sampling methods, research instruments, validity and reliability of the instruments used. Presentation and interpretation of results are contained in chapter 4. Chapter 5 consists of the Conclusion and recommendations from the study.

1.11 CHAPTER SUMMARY

The chapter consists of the background of the study where various success stories internationally and regionally on the application of corporate governance principles in SMEs was highlighted, problem statement, research objectives, research questions, hypothesis, significance of the study, limitations, scope of the study and dissertation outline.

CHAPTER 2

2.0 LITERATURE REVIEW

2.1 INTRODUCTION

The purpose of conducting a literature review according to Bourner (1996, p. 8) includes: 'to identify gaps in the current knowledge, to build on existing knowledge, to identify other people working in a similar field, to increase breadth of knowledge in the subject area, to provide intellectual context so that one can position their work relative to others', to identify methods relevant to one's own study, to identify opposing views and to put one's own work into perspective'. The goals, then of conducting a literature review are to demonstrate how the current research is linked to previous studies, to summarise and synthesise what is known in the area of research, to familiarise with a body of knowledge and thus establish credibility, and to learn from what others have done and in the process gain new ideas (Lawrence, 2000).

SMEs in Zimbabwe contribute immensely to the development of the economy and it is thus imperative that they be kept sustainable through various ways that include upholding good corporate governance principles. The current study looks at the importance of corporate governance in SMEs in Zimbabwe and will consider the different aspects of corporate governance and how they impact on the business performance. Corporate governance will be represented by board independence, separation of owner from manager, internal controls and disclosure and how these aspects link to or impact business performance in SMEs.

A brief overview of the recently introduced national code of corporate governance, Zimcode, is presented. It will then be necessary to ground the research on a particular theory or theories and in this case the relevant theories are the stakeholder, agency, resource based view and resource dependence theories. A critical analysis of each variable in relation to work conducted by other authors who have also researched on similar work would be made and in the process identify a research gap and also develop a conceptual framework for the dissertation.

2.2 DEFINITION OF SMES

There is no universally accepted definition for SMEs and there is variation from country to country where the definition may be based on: maximum number of employees, turnover, value of assets or a formula. These thresholds are usually decided by the governments and may vary between different sectors of the SMEs (www.globalreporting.org/resource). The authors Gibson and Van der Vaart (2008) have attempted to combine all the aforementioned aspects to come up with the following definition: 'An SME is a formal enterprise with annual turnover, in U.S. dollar terms, of between 10 and 1000 times the mean per capita gross national income, at purchasing power parity, of the country in which it operates.'

In Zimbabwe, the definition of SMEs is derived from the Small and Medium Enterprises Act and is based on number of permanent employees and capitalization (excluding fixed assets), turnover, economic sector, registration and licensing (National Micro Small and Medium Enterprises Policy Framework, 2014-2018). Classification has been done according to sub-sectors but generally for employees, Micro has a maximum of 5 employees while Small and Medium have a maximum of 40 and 75 permanent employees, respectively. The sector contributes about 60 % of GDP and 50 % to total employment in Zimbabwe. The SMEs sector commonly referred to as the informal sector, has the potential to generate jobs, alleviate poverty, build markets and manage resources and contributes towards sustainability of cities and has become a source of livelihood for a large segment of the population in developing countries (Onyenechere, 2011). It is a way of not only empowering and uplifting the marginalized in the society but has the potential of promoting economic growth in nations (Chigwenya and Mudzengerere, 2013).

2.3 UNIQUE CHARACTERISTICS OF SMES

SMEs have unique characteristics that distinguish them from large companies. The businesses are born out of individual initiative and skills, have greater operational flexibility and production that is generally low cost (Pandey and Shivesh, 2007). They utilize locally available human and material resources and have increased capacity for innovation together with ability to easily adapt new technology. The number of employees in SMEs is limited therefore, many functions are accumulated in only a few employees and informal leadership is common to the extent that they may be more communication orally than written (Brezinova, 2013). A high degree of flexibility helps them quickly adapt to rapidly changing SME factors. Most important of the characteristics of SMEs is their high employment orientation as they create jobs for the local people. SMEs also help contribute towards balanced regional growth.

However, while the advantages of SMEs are well documented the world-over, they also encounter some problems that hamper their progress and prevent them from realizing their full potential. Barriers include access to financing/credit where as compared to large firms; SMEs are charged higher interest rates due to lack of collateral. They have limited resources and therefore unable to acquire highly specialized employees (Decker, Schiefer and Bulander, 2006). The regulatory burden is a major hindrance for SMEs as they are not appropriately prepared to deal with such problems. Lack of transparency and lack of information technology are also obstacles to the progress of most SMEs. Market failures in capital markets, indirect labour costs, access to foreign markets and lack of qualified/skilled staff affect many SMES. Management/owners are usually untrained and have no management capabilities which are crucial for the success of SMEs.

2.4 CORPORATE GOVERNANCE IN ZIMBABWE

Some Zimbabwean companies have experienced a spate of corporate scandals, a major cause of which has been poor corporate governance (Maune, 2015). These companies include Air Zimbabwe, Premier Services Medical Aid Society (PSMAS), Zimbabwe Broadcasting Corporation (ZBC) and African Renaissance Bank (AFRE). Corporate governance practices in Zimbabwe have been regulated by various instruments including the Companies Act, Zimbabwe Stock Exchange Act, Public Finance Management Act and rules from some professional bodies.

A national code of corporate governance for both private and state owned enterprises for Zimbabwe was launched on the 9th of April 2015 by the Vice President Munangagwa (http://source.co.zw/2015/04/zim-launches-code-of-corporate-governance/). Zimcode comes in the wake of increasing corruption and a spate of company closures which is alleged to be due to poor or weak corporate governance structures. The Code is critical to restoring transparency and accountability in the public and private sectors which would also contribute towards restoration of the country's business image internationally which had been marred by corruption (http://www.zimbabwetoday.org/topics/corruption-crime/public-sector-corruption/2015/04/09/implementation-of-zimcode-key-in-restoring-the-countrys-corporate-image/)

The national corporate governance code which is expected to deal with the inadequate provisions in the corporate legal framework (the Companies Act), gives guidelines on the directors' term limits, board appointments, concentration of ownership and control, corporate conflict resolution and conflict and settlement. Zimcode is expected to assist in the growth of the economy through its principles on ethical corporate leadership and attraction of potential investors through their confidence in the corporate governance systems (http://source.co.zw/2015/04/zim-launches-code-of-corporate-governance/).

Zimcode is expected to be a guide to every entity operating in the country and if this could include the SMEs then we could witness a change in the way the SMEs are governed and the resultant success of these organisations through good corporate governance practices.

2.5 THEORETICAL FRAMEWORK

2.5.1 Corporate Governance Theory

Definitions for corporate governance are many and varied, each bringing out an important aspect of the term. According to Cadbury Report (1992), corporate governance is a system by which companies are directed and controlled. Shareholders are the owners (principals) of the companies who then appoint directors (agents) to run or govern the firm on their behalf, thus aligning with the Agency Theory. Corporate governance is also described as dealing with the way in which shareholders assure themselves of getting a meaningful return from their investment (Shleifer and Vishny, 1997). The authors add in an element of how shareholders ensure legal protection of their rights. The definition by OECD (1999) is broader and defines it as "The full set of relationships among a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined. The definition brings the aspect of the monitoring role of the board of directors. A definition by Crowther and Seifi (2011) brings about the element of trust, ethics and moral values as a synergistic effort of all stakeholders that include suppliers, customers, professional bodies, the general public and government.

According to Solomon (2007), corporate governance is a system which ensures accountability by management to both internal and external stakeholders and that they act in a socially responsible manner. This definition relates well to the stakeholder perspective which deals with the activities of the board and its relationship with those who have a legitimate stake in company. The King Report III (2010) states that the essential attributes of good corporate governance include honesty, integrity, transparency, sustainability, responsibility, risk management, compliance and independence. All the definitions point to the important role of the board in ensuring that good principles of corporate governance are upheld for overall market confidence, efficiency of capital allocation, growth and development of countries' industrial bases and ultimately the overall wealth and welfare of a nation.

Corporate governance is critical in protecting the rights and interests of the shareholders and other stakeholders and provides and is an effective tool in monitoring management actions and ultimately the company performance (ACCA, 2015). It is thus considered an essential factor in building stable economies.

In the case of SMEs or family-owned businesses, it is important that the corporate governance framework be in line with the stage of development of the company, that is, the policies and board-level practices should be reflective of the complexity and maturity of the organisation (Tricker, 2012). Ultimately, corporate governance principles should help add value to the firm, build its reputation and ensure success in the long term.

2.5.2 Stakeholder Theory

The Stakeholder approach takes a broader view of the firm in that instead of just taking the interests of shareholders into consideration, the firm has a larger constituency that include employees, customers, suppliers, creditors, government and society at large (Maher and Anderson, 1999). A stakeholder map is shown below in Figure 2.1.

According to the stakeholder theory, management of relationships with key stakeholders is fast becoming a valuable asset for value-generation and thus the success of an organisation is dependent on how it manages its relationship with its stakeholders (Hammann, Habisch and Pechlaner, 2009). Incorporating stakeholders would ensure development of communities where everyone strives to deliver the value the firm promises and at the same time improve everyone's circumstances (Freeman *et al*, 2004). Thus the board of directors should conduct their activities in the knowledge that various stakeholders are involved and would be affected by any decisions that are taken by the agents.

In this study the focus is on SMEs and how they relate to the various stakeholders that include owners, employees, customers, competitors, suppliers and the financial community. Engaging stakeholders would ensure their support for the business and thus have a positive impact on the businesses.

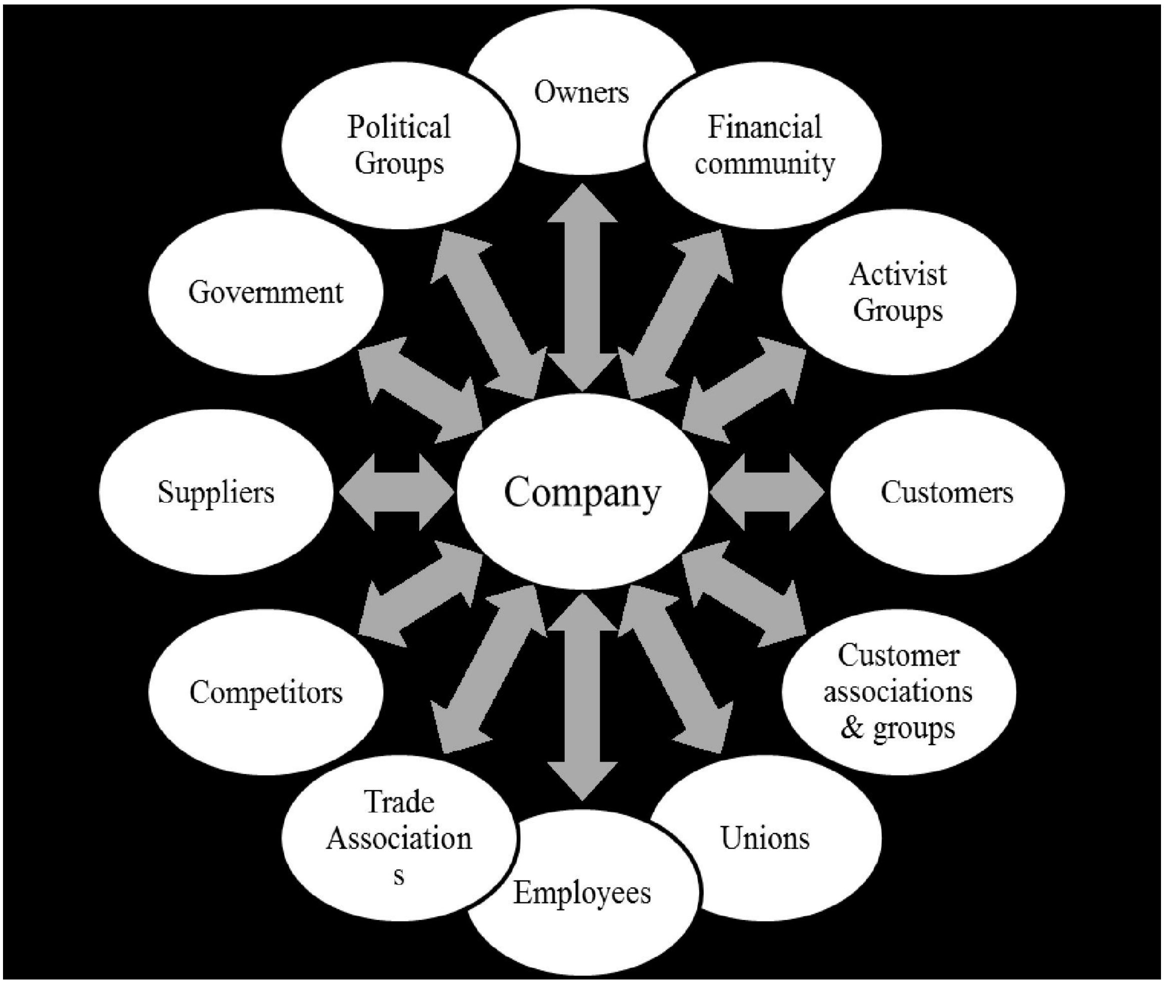

Figure 2.1: **Freeman's generic stakeholder map (Source: Papaioannou and Pettersson, 2012)**

2.5.3 Agency Theory

The study that is being proposed is premised on the Agency theory which is basically about the separation of ownership and management control and this agency relationship is described by Jensen and Meckling (1976) as a contract under which "one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent" According to the Agency theory agents are perceived to maximise their own interest at the expense of the interests of the shareholder. The assumption is that agents will only work diligently for the principals if incentives are appropriately aligned. Thus shareholders incur agency costs in an effort to align the agents' interest to theirs. Opportunities for managers to pursue their own interest arise in firms where there is poor corporate governance that is, where there are poor monitoring mechanisms and disciplining mechanisms (Tricker, 2012). In such situations there is likely to be room for the executive management to enrich themselves through hefty salaries and allowances. Some of the significant problems that may emanate from the agency problems include moral hazard, adverse selection, information asymmetry and residual loss (MacMahon, 2007).

It is thus encouraged that a board of directors has a significant number of independent directors (non-executive) to provide checks and balances on the executive management and thus protect the shareholders (Alzoubi and Selemat, 2012). Independent directors can shield shareholders from agency costs and maximise shareholder value through monitoring of managerial behaviour and firm performance (Gabrielson and Huse, 2005). Provision of independent thinking, prior to decision-making, encourages quality, unbiased decisions that would enhance the performance of the firm.

In this particular study the theory is relevant to SMEs in cases where the owner delegates a board, which would act as an agent, to run the business on their behalf. The presence of independent directors would then lead to a reduction in agency costs through the monitoring role of the Board. The independent directors strive to develop good reputations in decision control and their presence would therefore result in low probability of collusion and expropriation of shareholder wealth by top management (Kao, Hodgkinson and Jaafar, 2014). Consequently, agency costs would be minimised.

In SMEs, the common situation is that the owner is also the manager of the firm and this influences the risk taking activities. According to the Agency theory, equity ownership influences the manager's risk-taking behaviour with managers becoming more and more risk averse as their equity in the organisation increases resulting in strategic inertia. (Brunninge, Nordqvist and Wiklund, 2007). Thus owner managers or family owned businesses may impede strategic changes that include innovation and venturing in order to preserve the welfare of the family. The Agency theory thus also explains behaviour in owner-managers.

2.5.4 Resource Based View Theory

In the resource based view, the firm considers its internal environment (resources and capabilities) as being critical for establishing strategy and are sources of profitability and sustainable competitive advantage (Papaioannou and Petterson, 2012). The theory builds on the assumptions that resources in the firm are heterogeneous and that they have imperfect immobility across firms within an industry. Thus the company may have both strengths and weaknesses which can be exploited and outsourced, respectively.

In this case if an SME has a board that is independent, that is, with outside directors, these directors can bring to the organisation, experience, knowledge and skills (Gabrielson and Huse, 2005) and can thus contributes towards competitive advantage for the SME through their professional and personal qualifications.

2.5.5 Resource Dependency Theory

The theory is of the view that the long-term success of the firm is reliant on its abilities to link to its outside environment for the purpose of acquiring resources for the firm (Gabrielson and Huse, 2012). The governing body of a company (Board of Directors) are then seen as a link between the company and its environment that can ensure creation of a steady flow of resources for the achievement of the objectives of the organisation. This assumption is premised on the fact that board members have income, class, education, a social standing and corporate links and can thus be a valuable source for the firm in terms of obtaining resources that include information. The firm’s board members are assumed to be board members of other organisations as well and consequently can add value to the SME through the relationships, assets and contacts obtained from the external environment. In this case both executive and non-executive directors would be valuable to the company as long as they belong to other boards from which they can secure valuable resources for the organisation.

The resources that can be availed to the firm through its governing body may include links to relevant customers and competitors, sources of finance, relevant technologies, relationships with other businesses and other societal networks (Tricker, p 67, 2012).

2.6 CORPORATE GOVERNANCE AND CORPORATE PERFORMANCE

The issue of corporate governance mechanisms has taken centre stage in firms especially after the 2008 downfall, through failure of corporate governance systems, of corporate giants that include Enron and Worldcom (Keasey, Thompson and Wright, 2005). This has led to firms taking a more proactive role by putting corporate governance systems in place which ensure transparency and accountability, amongst other positive attributes.

The most relevant definition of corporate governance to SMEs describes it as ‘rules, regulations and structures’ or internal systems which ensure that relationships amongst the various stakeholders are maximised in order to achieve the objectives of the organisation (www.articlesbase.com/small-business-articles/importance-of-corporate-governance-for-smes-917533.html). Corporate governance is directed at transparency, fairness and accountability by the management to the owners thus protecting the shareholders and at the same time ensuring oversight and control over the performance and strategy of the management. A framework, then, is provided for profitability and creation of investment opportunities. Although application of good corporate governance principles is no guarantee for success of the business it is estimated that 48 % of investors would pay additional premium for firms who implement corporate governance principles compared to the firms with poor corporate governance practices.

Research conducted by Larcker, Richardson and Tuna (2007) to determine if there is an association between corporate governance and corporate performance has not yielded consistent results may be due to the difficulty in coming up with the appropriate measures of corporate governance. In other studies, however, corporate governance was found to have an effect on firm performance. Amba (2013) studied the effect of various variables of corporate governance on the firm performance (measured by return on assets) and found a negative association between CEO duality, leverage, proportion of non-executive directors and firm performance whereas, board member as chair of audit committee and proportion of institutional ownership had a positive effect on the firm's performance. In a related study but using director stock ownership and board independence as corporate governance measures Bhagat (2009) concluded that board independence had a negative relationship with corporate performance while director stock ownership showed a positive relationship. Generally a company with good corporate governance is perceived to be well governed, transparent, has accountability and therefore is able to access capital, attract shareholders and is likely to be more profitable than the one with poor corporate governance (Youssef, 2010).

Although studies by Larcker *et al* have not yielded results that would link corporate governance with business performance, Amba (2013) and Bhagat (2009) agree on the fact there is a link between corporate governance practices and corporate performance with some corporate governance measures having a positive impact while others have a negative impact on the business performance.

2.7 BOARD INDEPENDENCE AND BUSINESS PERFORMANCE IN SMES

The Board of Directors is the highest executive body of a firm and is mandated by the shareholders to act (within regulations) in strategic decision-making with the aim of maximising shareholder value (Topal and Dogan, 2014). The Board is expected to be proactive and at the same time ensure that shareholders get a return for their investment continuously and permanently in the long term. Organisations need a strong structure for boards if the board is to effectively carry out its obligations of directing, inspecting and rule-making. For the board to operate effectively, it requires the right mix of skills and experience and at the same time allows diversity of thoughts and debates while working as a team for the maximisation of shareholder wealth (Pricewaterhouse Coopers, 2005). There should be no dominance of a single individual. A board should have an understanding and competency in current issues affecting the organisation and able to question some management decisions if they do not align with the interest of the shareholders.

Boards of Directors (BODs) are normally associated with large companies but it is increasingly becoming evident that BODs introduced in SMEs are also effective in improving the performance of the business. The results of a study carried out on Ghana SMEs by Abor and Biekpe (2007) show that board size, board composition, management skill level, CEO duality, inside ownership, family business, and foreign ownership has significantly positive impacts on profitability. The presence of a board ensures better management of the organisation through introduction of good corporate governance principles and thus positively impacts on the performance of the SMEs.

An independent non-executive director should not have any relationship with management that could materially interfere with their duties of contributing objectively and independently in any BOD debate (Pricewaterhouse, 2005). Specifically, these are board members who are not employed by the company, have not been employed by the company for the past three years and are not the organisation's suppliers of any goods or services (Gomez,)

Board composition or independence refers to the number of independent non-executive directors on the board relative to the total number of directors (Abidin, Kamal and Jusoff, 2009). Independent non-executive directors have no affiliation with the company besides their duties as directors and there is an assumption that a large proportion of outside directors (at least one third of total) lead to better and objective decisions.

In addition, the presence of independent directors assist the board in monitoring and controlling management, who if left to themselves, may pursue their own interests at the expense of the shareholders'.

Independent or outside directors are appointed basing on their skills, expertise, qualifications and experience and may influence the decisions of the board resulting in addition of value to the firm (Rashid and Lodh, 2008). They assist in preventing agency conflicts between management and shareholder through their monitoring role. Independent directors can provide objectivity in board decisions, resolve the problem of information asymmetry and can freely evaluate management performance without bias. Furthermore, according to Abor and Adjasi (2007), outside board members may help SMEs to attract better resources.

However, although outsiders' presence can result in improved performance, the independent board members are less informed than insiders about firm constraints and opportunities (Raheja, 2007). The firm-specific information is important to the board and its knowledge may result in improvement in firm performance.

Several authors carried out studies on the relationship between board independence and business performance in SMEs based in different countries and obtained mixed results.

According to Abidin *et al* (2009), board composition has a positive impact on the performance of the business. Apadore, Subaryani and Zainol (2014) also find a positive relationship between the two variables and infer that the proportion of independent directors might result in different decisions from which the appropriate ones would result in the improvement of corporate performance. In addition, MacKay (2012) is in agreement with the previous authors and posits that the presence of a larger proportion of independent directors is positively associated with performance. Further support comes from Kao *et al* (2014) who show that the higher the proportion of independent directors and the smaller the board size, the higher the performance. In this study the authors add in a mediating variable, board size, to the relationship between board independence and business performance. Choi, Park and Yoo (2007) also find a significantly positive relationship between presence of independent directors on the board and corporate performance, a view also shared by Abor and Biekpe (2007). The positive impact of board independence on business performance is further supported by Hamad (2011) on his studies on Tunisian SMEs. In a recent survey by Maseda, Iturralde and Arosa (2015), a balanced presence of outside directors contributes to value-creation in family SMEs but the composition and roles of the boards differ from generation to generation, with lower proportion of independent directors resulting in better performance for subsequent generations than for the first generation.

On the other hand, some authors find a negative relationship between board independence and performance in SMEs. Shukeri, Shin and Shaari (2013) find a negative association between board independence and corporate performance. Support comes from Arosa, Iturralde and Maseda (2013) who discover that the presence of outside directors impacts negatively on performance of SMEs. A 2012 study by Mangena, Tauringana and Chamisa yielded results that are in agreement with the previous authors and report a negative relationship between the board independence and firm performance.

A number of authors show that there is no significant relationship between board independence and business performance (Rashid and Lodh, 2008; Akpan and Amran, 2014). Furthermore a study by Tan, Liu, Jing and Dong (2015) also reveals that there is no significant relationship between the two variables in listed SMEs, that is, the presence of more outside directors does not improve the SME performance.

There are mixed views on the importance of board independence in SMEs and how it impacts performance in different countries. The study will look at the Zimbabwean SME perspective.

2.8 OWNER-MANAGER SEPARATION AND BUSINESS PERFORMANCE

In small businesses, the shareholders have a dual role of being both owners and managers of the business, in other words the business is closely-held (Chu, 2009). These firms are often described as having concentrated ownership and are usually family owned. The structure is seen as agent problem mitigating as there is supposedly effective monitoring by the shareholders through the combination of ownership and control. Chu (2009) further suggests that the owner-manager structure is seen as having several advantages for the firm in that value is created through technology, innovation and entrepreneurial activities; information advantage; investment efficiency; low agency costs and a sustained presence which leads to establishment of long lasting relationships with the stakeholders of the firm. In addition, the owner-manager structure deflects some pressure from investors and other monitoring agents who may scrutinise the firm for accountability and transparency (Carney, 2005).

However, according to George, Wiklund and Zahra (2005), ownership concentration in management can lead to strategic inertia, where the managers would be risk averse and uninterested in strategic change through diversification, product innovation or venturing into international markets. One other disadvantage of family ownership or owner-manager structure is that they may look to their self interests at the expense of the business through exchanging profits for private rents in an effort to satisfy family members (Chu, 2009). The owners may limit top management posts to family members at the expense of qualified and professional managers leading to entrenchment and expropriation behaviour. Thus, SMEs with concentrated ownership are likely to show inefficiencies and lower profitability than those with dispersed ownership (DeAngelo and DeAngelo, 2000).

Research on SMEs by various authors seems to be skewed in favour of the owner-manager duality, a situation where the owner is also the manager of the business especially for family businesses. Chu (2009) finds that the influence of family ownership on SME performance is positive and significant and further studies by the same author in 2011 still indicate that family ownership is positively associated with firm performance and the association weakens if family members are not part of management or control. According to De Massis, Kotlar, Compopiano and Cassia (2015), ownership dispersion among family members negatively affects performance and therefore the top management has to be balanced by family members for effective performance of the business. Vos and Roulston (2008) agree with the above authors and find a significant relationship between degree of owner involvement and profitability, leveraging and liquidity even when size is taken into consideration. However, according to Kotey (2005), smaller firms that are associated with higher profitability up to a medium level after which non-family management seems to achieve better profits. Managerial ownership of an SME is only effective in achieving positive performance up to 40 % equity level owing to the incentive effect, after which it becomes negative (Mueller and Spitz-Oener, 2006).

Other authors find a negative relationship between owner-managed firms and performance. Lack of separation between owners and management in Zimbabwean SMEs leads to less accountability and hence corporate governance problems (Musanzikwa, 2014). Furthermore, McMahon (2007) finds no statistically significant relationship between managers' equity in the firm and financial performance in SMEs. Studies by Fatoki (2011) reveal that human, social and financial capital has a positive association with performance of SMEs. Thus, owner-managed businesses record poor performance if the owner does not possess the relevant educational qualifications but performance is higher if they have the requisite education.

From the above analysis, most SMEs are owner-managed and family owned. The owner-manager duality seems to work for most SMEs as the structure is positively associated with the performance of the business. This study would seek however, to find out which structure Zimbabwean SMEs favour and whether it positively influences the performance.

2.9 INTERNAL CONTROLS AND BUSINESS PERFORMANCE

Internal controls are a set of policies and procedures applied by an organisation to ensure proper processing of transactions in alignment with the entity's objectives, mission and goals (Nyakundi, Nyimeta and Tinega, 2014) Internal controls ensure avoidance of theft, waste and misuse of organizational resources and provide reasonable assurance as to the reliability of financial statements, efficiency of operations and compliance with the law and regulations. In other words internal controls safeguard assets, ensure financial information is accurate and reliable, ensure compliance with financial and operational requirements and assist in meeting the business' objectives (www.cpaaustralia.com.au). Internal control includes measures taken by management for the smooth functioning of the firm and assists management to perform their functions (Shanmugan, Ali and Che Haat, 2012). Internal controls gives assurance to external auditors on the reliability and accuracy of information supplied to them. Thus the purpose of the controls is to address any identified business risks that threaten to derail the achievement of the company's objectives and to ensure creation of an environment of efficiency and effectiveness in the business. The internal controls that have been found to have an impact on the business financial performance include: segregation of duties, physical authorization and approval, arithmetical and accounting, personnel, supervision, management, acknowledgement of performance and budgeting. About 30 % of small businesses failures in USA are attributable to poor internal controls in SMEs culminating in pilferage, embezzlement, scams, and fraudulent schemes amongst other crimes in the workplace (Osseifuah and Gyekye, 2013).

Studies by several authors point out to the impact internal controls have on the performance in SMEs. Findings by Osseifuah and Gyekye (2013), in a study carried out in the Vhembe district in South Africa are that internal control practices in the district are low with only 45 % of the SMEs having adequate internal controls. Furthermore studies conducted by Nyakundi, et al (2014) led to the conclusion that internal control systems have a significant impact on the financial performance of Small and Medium scale Enterprises in Kisumu district in Kenya. Effective internal control, fraud prevention measures and risk management policy will contribute to the improvement of SMEs performance (Shnmugan, *et al*, 2012). It has been observed that several SMEs are failing due to poor management and weak accounting structures. Results from a survey carried out by Olatunji (2013) reveal that adoption of sound accounting systems and audits enhances business performance in small and medium scale enterprises and recommends customization of accounting systems and audits and compliance of small businesses to internal controls. Turyahebwa, Sunday and Ssekajugo (2013) suggest that applying internal controls through good financial management practices impacts positively on business performance in SMEs.

The majority of the authors cited seem to agree that observance of internal controls in SMEs impact positively on the performance of SMEs and that lack of internal controls in a firm may subsequently lead to failure of the business. The aspect of internal controls will be looked at in the present study in the Zimbabwean SMEs perspective.

2.10 DISCLOSURE AND BUSINESS PERFORMANCE

Disclosure is putting in place mechanisms for regular, accurate and timely reporting of information pertaining to the business to the relevant stakeholders that include shareholders, board members and statutory bodies. The disclosure is both financial and non-financial. Disclosure is provided by businesses through financial reports, including financial statements, footnotes, management discussion and analysis. It can be voluntary through internet, press releases and conference calls (Healy and Palepu, 2001). Financial information includes income statement, balance sheet, cash-flow statement, statement of changes in financial position and notes to the financial statements. In addition, compensation systems for key executives must be disclosed. Information on the mission, vision and objectives of the firm, code of good corporate governance, reports on how the corporate governance practices are implemented and qualifications of the BOD are amongst the non-financial information that is expected to be availed by companies (Gomez). Openness and transparency in a company brought about by disclosure is regarded as critical in ensuring that stakeholders relate to and evaluate the business as they interact with the company (Parum, 2005).

Literature on the link between disclosure and business performance in SMEs is scant. The study would then seek to explore if there is a link between the two variables in Zimbabwean SMEs.

2.11 GAPS IDENTIFIED

The research on the link between corporate governance issues and performance in SMEs is vast and generally point to a positive impact of corporate governance mechanisms under study (board independence, internal controls, and owner-manager separation) on business performance. However, research on the impact of disclosure on SMEs performance is very limited indicating that not much has been done in that area. The literature review also shows a negative relationship between owner-manager separation and performance in SMEs.

The research has been widely conducted in other countries but a research gap exists in Zimbabwean SMEs where such a study on the impact of corporate governance on performance has not been looked at.

2.12 CONCEPTUAL FRAMEWORK

The conceptual framework shows an interconnected set of ideas about how a particular phenomenon functions or is related to other parts (Svinicki, 2010). It is 'a system of concepts, assumptions, expectations, beliefs and theories' that research one bases their research on (Sitko, 2013). It can be represented in narrative form or graphically where the key factors or variables are indicated together with their relationships. It therefore shows relationships amongst the different variables involved. In this case as shown in Figure 1 below, the conceptual framework examines the relationship between corporate governance structures (independent variables), which include board independence, owner-manager separation, internal controls and disclosure and business performance (dependent variable). Control variables that include firm size, gender, owner/manager experience and qualifications are also added into the regression equation in order to eliminate specification bias in the hypothesis testing. This is to enable the measurement of only the independent and dependent variables.

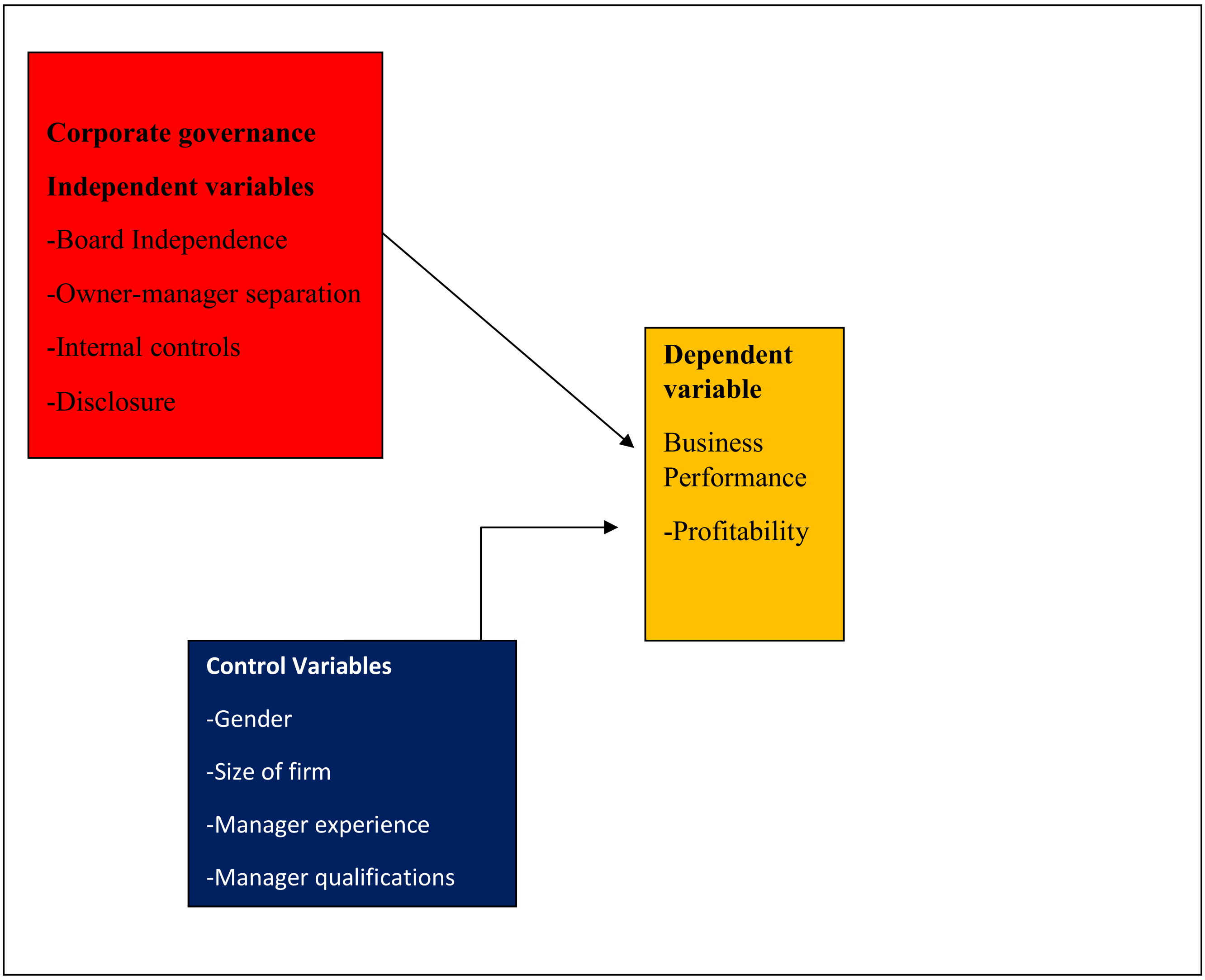

Figure 2.2: Conceptual Framework on the impact of corporate governance factors on business performance in SMEs

2.13 CHAPTER SUMMARY

The chapter is a general overview by several authors on the effect of various corporate governance practices on the business performance in SMEs. It looked at the definition and uniqueness of SMEs, the importance of corporate governance and the theories on which the study is premised on. An extensive literature review was also done on each of the independent variables and their effect on the dependent variable. The chapter concluded with a conceptual framework on the study. The next chapter is on the research methodology employed in the research.

CHAPTER 3

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION

Research Methodology is the science of studying how research is carried out and involves studying the various steps taken by a researcher and the logic behind these steps (Kothari, 2004). In this particular study, firstly the research objectives and hypothesis were once again brought into focus as a reminder of what the study is about and to ensure that the research methodology is appropriate for the given objectives. An attempt was then made to identify the research design which included the research philosophy, research approach and research strategy. Data collection instruments were also specified as well as the target population and sampling and data analysis techniques in order come up with the appropriate methodology to answer our research problem. Furthermore, the validity and reliability of the data collection instruments were discussed. Limitations and ethical issues were discussed before concluding with a chapter summary.

3.2 RESEARCH DESIGN

The research design is like glue that holds the whole research project together (Trochim, 2002). A research design seeks to answer several questions including how we can conduct our study such that the information we obtain is a true representation of reality, how we can ensure that similar results can be obtained if someone else were to conduct the same study at a different time and how we ensure that we conduct our study to specifications, in time and within budget (Saunders, 2009).

The main types of research are descriptive, exploratory and explanatory (Bryman, 2004 p26-32). The descriptive research seeks to make a detailed description of a situations, people and events aiming to answer the ‘who’, ‘what’, ‘where’, ‘when’, ‘why and ‘how’ questions. The descriptive purpose is conclusive, does not seek to test a hypothesis, is confirmatory and usually employed in the late stages of decision-making. On the other hand the exploratory purpose of research is used in the preliminary stages of a new or unknown phenomenon and seeks insights to clarify a problem. The research purpose may develop a hypothesis but not test it and is normally used in the early stages of decision-making. The explanatory type or causal research aims to test relationships between phenomena or variables (independent and dependent). The explanatory research purpose seeks to test a hypothesis and is confirmatory and conclusive.

In the research undertaken, both the descriptive and explanatory types of research were used. The research provided descriptive information on the independent variables and went on further, to establish the relationships between the corporate governance principles (independent variables) and business performance (dependent variable).

3.3 RESEARCH PHILOSOPHY

Research philosophies are beliefs and assumptions about how one views the world and determines the research strategy and methods that would be used in a research (Bryman, 2004). The philosophy chosen depends on the relationship between how one views the nature of reality (ontology) and the means to acquire knowledge (epistemology). Ontological assumptions are based on whether reality is objective or subjective (feelings and attitudes of people), whether there is a single reality (objectivism) or multiple realities (subjectivism). Epistemological assumptions are how knowledge is generated, that is, finding the best way to study a phenomenon. The two assumptions then constitute a research philosophy or research paradigm. Three philosophies have been identified and these are positivism, intepretivism and realism.

Positivism is belief that knowledge is valid if it is derived from testing a hypothesis and if obtained objectively and externally (detached from respondents). The philosophy is derived from natural sciences and is based on cause and effect relationships. Positivism uses quantitative methods that include surveys, experiments and statistical analysis and requires collection of large samples and the data collection is done in a structured way. On the other hand interpretivism is derived from social sciences believes that knowledge should not be generalised as it is contextual and attempts to attach meaning to actions by individuals (Bryman, 2004, p13). Thus, meaning of phenomena may be interpreted differently depending on the meaning attached by the individuals through their experiences and feelings. According to interpretivism, reality is relative or contextual. The research paradigm is associated with a qualitative approach. Realism takes some points from both positivists and interpretivists but disagrees with the structured view of positivism and the overly contextual approach of interpretivism and in the process playing a bridging role between the two extremes. It is associated with triangulation methods of research.

In the current study a positivist research philosophy was used as the study looks at a causal effect between the independent and dependent variables. A structured view was also used in the data collection through surveys. Advantages of positivism are its emphasis on objectivity and numerical analysis, reliability of results, control of the research process and collection of a lot of data in an economical way.

3.4 RESEARCH APPROACH

The research approach depends on the research questions, objectives, amount of time for the research, the researcher's philosophy and other resources at the researcher's disposal (Saunders, 2009). A quantitative/deductive, qualitative/inductive approach or a mixed methods approach can be employed. The deductive approach is a scientific method that seeks to prove a theory and is a top-down approach where one starts off with a certain theory or hypothesis, collects data and tests the hypothesis in order to confirm or disconfirm the hypothesis. The inductive approach is a bottom-up approach which seeks to develop a theory by first collecting data, observing patterns and regularities and developing general conclusions or theories. The quantitative/deductive approach is a highly structured approach that uses large samples, seeks to explain causal relationships, has high reliability, uses probability sampling methods and seeks objectivity. Conversely, the qualitative or inductive approach seeks to gain an understanding of meanings people attach to a social or human problem. The qualitative approach is contextual, uses small samples, comes up with new theories, is subjective, has low reliability, uses non-probability sampling methods and produces rich data. Compared to the deductive approach, the method is flexible and one can change some parameters in the course of the study whereas it would not be possible to do that in a quantitative study. In the mixed methods approach both qualitative and quantitative data is collected and integrated. It is hoped that the combination of the two approaches would provide a better understanding of the problem than either of the individual approaches

In the study, the quantitative/deductive approach was used as the information sought was sought for cause-effect relationships between variables and hypothesis testing. It has high reliability, is objective, research design is decided in advance, less time-consuming compared to qualitative research and can produce specific and precise data. The fact that it employs probability sampling means that each unit in the population has an equal chance of being selected in the sample and therefore highly representative of the population under study.

3.5 RESEARCH STRATEGY

Several research strategies can be used by the researcher depending on whether they are using the quantitative or the qualitative approach.

Qualitative research strategies include Action research, Case studies, phenomenological approach, grounded theory, ethnography and archival research. The strategies are premised on the study of social phenomena, that is 'how individuals experience and interact with the social world' (Merriman, 2002 pp 4-5). The researcher is an active participant in this type of research as they seek an in-depth understanding of people, events and situations in a contextual manner to come up with concepts, theories or hypotheses. The advantages include having an opportunity to probe respondents to seek clarification, capitalise on the verbal and non-verbal communication of respondents, explore further on points where the researcher might not have understood and often produces rich data. However, qualitative research strategies can be time-consuming, costly and biased due to the subjective nature.

Quantitative strategies generally test hypotheses or theories and are basically composed of experiments and surveys which produce data that is numerically analysed and presented statistically on tables and graphs (ACAPS, 2012). The objective is to get consistent answers to standardised questions in order to generalise the results to a given population. The strengths of quantitative research data are in the numeric estimates, comparable data, simple data analysis, low cost, reliability and in the less time consumed compared with qualitative strategies. In experiments, the research seeks to test whether a specific treatment influences an outcome by providing the treatment to one group and not applying it to another group. Both groups are then tested on how they scored on the outcome. Surveys reveal numeric descriptions of trends, attitudes or opinions in a given population through studying a sample of that particular population. Data collection can be done using questionnaires or structured interviews (Fowler, 2008). Weaknesses in the survey strategy lie in the respondents' reluctance to answer some questions, gaps on information not included in questionnaire, lack of opportunity for probing and reliance on breadth rather than depth.

The research opted for a structured survey quantitative research strategy due to its objectivity, less time-consuming and low –cost nature.

3.6 TARGET POPULATION AND SAMPLING METHODS

3.6.1 Target Population

A population is a theoretically specified aggregation of study elements or a pool of all available elements and the target population is the group of specific population elements that the research project is focusing on, that is, a group of all elements from which the survey sample is drawn from. Sampling involves using a small number of items of a larger target population to draw conclusions about the whole population. The sampling frame is the list of elements from which a sample may be taken.

The population is all SMEs in Zimbabwe, which is all the units which the results of the survey were meant to generalise. The target population was all SMEs in Harare Metropolitan. Harare is the capital city of Zimbabwe and the economic hub of the country. The study was done on SMEs with more than 5 employees, that is, firms that were large enough to ensure the existence of a suitable management team and a controlling board and also provided financial information for the year 2014. The study involved a cross-section of SMEs in different industries that included retail, services, manufacturing and transport sectors. The minimum sample size was determined using the following formula, which is ideal for correlation studies:

$50 + 8n$

where n represents the number of variables under study. The minimum sample size was found to be 90. However, 110 samples were used in the survey to ensure reliability of the results obtained.

3.6.2 Sampling methods

Sampling was through a combination of probability and non-probability methods to ensure that there was purposive selection of units which had pertinent information to the research problem. Random sampling could have been time-consuming and resulted in missing key informants from the target population. Specifically the stratified sampling method was used where SMEs were divided into sectors, that is, manufacturing, retail, services, construction and transport sectors. Respondents were then drawn from each sector or stratum using convenience sampling method in a ratio of 90:90:60:30:30, respectively. Convenience sampling is ideal for selecting samples that are accessible and near (Saunders, 2009). The stratified sampling method merits are that it ensures representation of all groups, can have a small sample that is still representative and enables comparisons of the different strata.

3.7 DATA COLLECTION INSTRUMENTS

3.7.1 Instruments

Data collection is a process of gathering measuring information the research variables systematically in order to solve given research questions, test hypotheses and evaluate outcomes (Nyakundi*, et al*, 2014). Data collection instruments are determined by the research philosophy that is being applied, the research approach and the research strategy. They include observation, interviews, focus groups and questionnaires. Observation technique gathers data by observing behaviours, events or processes in their natural setting (Evaluation Briefs, 2008). It can be participatory or non-participatory or disguised, where respondents would be unaware that they are being observed. The latter may yield richer information though it may be affected by ethical considerations. Observation may be structured if it is for the purpose of descriptive or explanatory research or unstructured if the study is for exploratory research. The technique's advantage is that one can collect data as events or behaviours are occurring and does not depend on people's willingness or ability to provide information. However, its limitations are that one cannot observe feelings, beliefs and attitudes that motivate behaviours, is expensive, biased and can be subject to the 'Hawthorne effect'. The interview method consists of structured, semi-structured and unstructured interviews. It involves collecting data from respondents by oral questioning of individuals or groups (Chaleunvong, 2009). Interviews may be face-to-face, telephonic or through electronic mail. Interviews allow clarification on issues through probing and have higher response rates than questionnaires. One limitation of interviews is that the responses may be influenced by the presence of the interviewer.

3.7.1.1 Self-administered Questionnaires

Self-administered questionnaires or written questionnaires are also used as data collecting instruments. Questionnaires are a data collecting instrument wherein the respondents to stated questions in writing. The questionnaires can be sent by mail or hand delivered to respondents. The respondents would be asked to respond to the same set of questions in the absence of an interviewer. The absence of the interviewer ensures lack of bias in the process and the instrument is suitable for descriptive and explanatory research. The technique also ensures anonymity of respondents thus eliciting more honest answers (Chaleunvong, 2009). However, the level of literacy of the respondents might affect the response results.

The study employed the self-administered structured questionnaire as an instrument for data collection due to its low cost and flexibility to collect large amounts of data in a shorter period compared to the observation and interview methods. The questionnaire instrument is also suitable for explanatory and descriptive research which is what the study is focusing on as it looks at corporate governance and corporate performance in SMEs.

A five-page questionnaire was distributed to various business sectors of SMEs. A five-point rating Likert scale rating was used in the questionnaire. Initially, a pilot study was carried out on 16 SMEs to determine the validity of the questionnaire through clarity and relevance of questions. The results of the survey led to some adjustments on some questions on the questionnaire before launching the main survey. For the main survey, 128 questionnaires were administered to various SME sectors including retail, manufacturing, services and transport in the city centre and industrial areas around the city of Harare.

3.7.2 Variables and Measures

The hypothesis was tested using the regression model through the independent and dependent variables. The dependent variable was business performance as indicated by increasing sales, profits, number of employees, number of branches and return on assets (ROA). ROA measures the capacity of assets of a firm to generate profits and is regarded as an indicator in determining investment hence is an indicator for profitability. It is defined as earnings before interest and tax divided by total assets and has been found to be a more accurate measure for profitability in developing countries where capital markets are imperfect and the debt-equity ratio very high (Chu, 2009).

Four independent variables were used in testing the hypothesis. These represented corporate governance principles which included board independence, owner-manager separation, internal controls and disclosure. Board independence was measured by percentage of non-executive directors, a percentage of more than 50 % indicating independence of the board. A majority of independent non-executive directors constitute to board independence (Apadore and Zainol, 2014).

In addition, control variables were also added in the conceptual framework in order to minimise specification bias in the hypothesis testing. Control variables isolate the effect of other factors affecting the dependent variable and will highlight the relationship of only those independent variables and dependent variable under study. The control variables chosen were size of SME, gender of owner/manager, owner/manager experience and qualifications.

3.9 DATA PRESENTATION AND ANALYSIS

Research results were presented through tables, charts and percentages. A statistical package Statistical Package for Social Sciences (SPSS) was used in the analysis of the data for ease of analysis and interpretation of results. The data was anlaysed using both statistical and narrative methods. The effect of the independent variables (board independence, disclosure, separation of owner from manager and internal controls) was tested on the dependent variable (Business performance). Specifically, the response rate, population distribution, credibility of research instruments, normality test, descriptive analysis, tests of independence and inferential statistics were analysed.

In inferential statistics, correlation and regression analysis was made on each independent variable against business performance as a way assessing the relationships between the independent and the dependent variables. Linear regression was used to estimate the effects each predictor has on business performance. The method estimates what independent variables best predict the value of the dependent variable (Hair, Black, Babin, Anderson and Tatham, 2006). Spearman‘s correlation was used in describing the strength of the relationships and a multiple regression model was used to check whether the sets of independent variables are a predictor for the dependent variable.

The Regression model was in the form given below:

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$,

where,

Y is the dependent variable

β_0 is the regression constant or intercept

$\beta_{1\text{-}4}$ represents the regression coefficients or change induced by each X variable

$X_{1\text{-}4}$ represents the independent variables and

ε is the error component

3.10 CREDIBILITY OF RESEARCH INSTRUMENTS

It is important to ensure that the research instrument used is credible and for the instrument to be credible it must be both reliable and valid so that the truthfulness of the research instrument is ascertained.

3.10.1 Validity

Validity is the extent to which the instrument measures what it purports to be measuring (Kimberlin and Winterstein, 2008). Validity consists of external and internal validity. In external or population validity, the results from the selected sample should be able to be generalised to the population for them to be valid (Saunders, 2009). External validity may be affected by sample size, Hawthorne effect (reaction of subjects who know they are being studied), pretesting and setting. To ensure external validity, one should use random samples, repeat study several times and ensure that sample is representative of the population. Internal validity is the extent to which the instrument is measuring what it is supposed to measure and includes content, face and experimenter bias, pretesting, maturation and experiment mortality (subjects dropping out). Consulting subject experts and conducting a pilot study are some ways to ensure internal validity.

In the study, pilot testing was conducted as a way of ensuring validity of the research instrument used.

3.10.1.1 Pilot-Testing the questionnaire

Pilot testing or pre-testing is a small scale trial run and in this case, of a questionnaire and assists researcher in determining and eliminating potential errors in content, wording, order, form and layout of questionnaire (Saunders, 2009). Pilot testing is also useful in training the researcher. It involves using a small number of respondents (15 – 30 recommended) to test the appropriateness of the questions and their comprehension. The sample selected for the pilot study should be similar to the units to be included in the main study in terms of background, characteristics, familiarity with topic, attitudes and behaviours of interest. Aspects to be evaluated in the pilot-testing are reactions of respondents to different aspects of the research, availability of study population, acceptability of questions asked and willingness of respondents to co-operate in answering the self-administered questionnaires.

In the study a subject expert was consulted and a pre-test was done through conducting a pilot study on 16 respondents to ensure validity of the research instrument. Results from the reliability test on the pilot study indicated that some questions in some of the variables needed to be revised / eliminated. The revision was done on the questionnaire before the main survey was launched.

3.10.2 Reliability

In research, the term reliability means "repeatability" or "consistency". A measure is considered reliable if it would give us the same result over and over again (Trochim, 2002). This definition is also echoed by Saunders (2009) who also states that reliability is 'the degree to which a measurement technique can be depended upon to secure consistent results upon repeated application'. Four general classes of reliability estimates are known and each estimates reliability in a different way (Trochim, 2002). The Inter-rater or Observer Reliability is used to assess the extent to which different observers give consistent estimates of the same phenomenon while the Test-Retest Reliability assesses consistency of a measure from one time to another. In the Parallel-forms Reliability, consistency of results of two tests constructed in the same way from the same content or domain is assessed. Internal Consistency Reliability assesses the consistency of results across items within a test.

Threats to reliability can be due to subject, observer, situational, instrument and data processing reliability. The subject (respondent) reliability is where dependence is on the mood of the subject who may also be subject to fatigue while the study is in progress. Observer reliability focuses on the abilities of the researcher and their opinions. In situational reliability, it depends on the conditions under which the study is taking place. The instrument of research or the measurement approach affects the reliability an example being poorly worded questions in a questionnaire. Data processing reliability may be affected by the manner in which the data is processed with the risk of miscoding.

Reliability in the study was established by using Cronbach's alpha coefficient obtained by the Statistical Package for Social Studies (SPSS). The required value is at least 0.7 (Saunders, 2009).

3.11 LIMITATIONS

Time was a limiting factor in accessing the respondents. Some respondents were reluctant to take time on the questionnaires while on the other hand one could not be sure if some respondents really understood what was being asked in the questionnaires.

3.12 ETHICAL ISSUES

Research ethics are defined as appropriateness of researcher's behaviour in relation to the subjects under study. Ethical issues are increasingly getting prominence in the research field. Research ethics start from formulating and clarifying research topic, designing, gaining access, collecting data, processing, storing data, analysis and writing up in a moral and responsible way (Saunders *et al*, 2009). General ethical issues include privacy of participants, voluntary participation, consent of participants, confidentiality of data obtained from participants and maintenance of anonymity of the participants. The responses of participants to the way data is collected should also be taken into account to ensure that the participants are not subjected to discomfort, stress, pain or harm.

Adherence to ethical requirements was ensured at each stage of the project. Informed consent was obtained from each research participant ensuring that they voluntarily consented to participate. The objective of the research was made clear to all participants to make them feel comfortable and therefore respond freely. Privacy and confidentiality issues were respected through ensuring that respondents understood that their inputs in the questionnaires were not going to be used for any other purpose other than the study being conducted. Anonymity of participants was also ensured.

3.13 CHAPTER SUMMARY

The chapter reintroduced research objectives and hypothesis in order to bring the study into perspective. There was discussion on the research design which included the philosophy, approach, and strategy used in the research by first defining each term, identifying a specific one that was employed and then justifying that choice. The target population, sampling method and data collection instruments used were also discussed together with the data analysis, ethical considerations and limitations encountered in the methodology section. The following chapter (Chapter 4) focuses on the research findings and discussion.

CHAPTER 4

4.0 RESEARCH FINDINGS AND DISCUSSION

4.1 INTRODUCTION

The chapter presents the research findings of the study and the analysis of the results. The response rate is looked at first followed by a descriptive analysis of the demographic information wherein data are summarized, organized, graphed and described through the relevant frequencies or percentages. Reliability and validity findings are then discussed. Results of normality test and test of independence will be analyzed before carrying out an inferential statistical analysis in which inferences will be drawn to the population on the basis of sample data. Inferential analysis will include regression and correlation analysis on the variables. Furthermore, hypothesis testing is performed based on the results of the analysis. The results will then be discussed in relation to the literature review. This chapter is the basis upon which conclusions and recommendations were made.

4.2 RESPONSE RATE

In the survey, 128 questionnaires were administered to SMEs which included retail, manufacturing, transport, construction and services sectors. The majority of the questionnaires (89%) were personally administered while the rest were sent by email. From the sample, 110 responded, representing an 87% response rate. All the questionnaires returned were usable. For the questionnaires that were emailed the response rate was only 26 %. The high response rate of the survey could be explained by the fact that the researcher was personally administering the questionnaires to the SMEs used in the study.

4.3 FREQUENCY TESTS

The data obtained in the survey of was analysed to come up with frequencies of the different attributes under study relating to sex, age, level of management, highest educational qualification, years of experience, business sector, company size and operational period.

4.3.1 Sex of respondents

The table below shows the proportion of males and females in the SMEs that participated in the survey.

Table 4.1: Sex of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	73	66.4	66.4	66.4
	2	37	33.6	33.6	100.0
	Total	110	100.0	100.0	

From the results of the survey, 66.4% of the respondents were male while 33.6% were female and is an indication that male managers dominate the SMEs in the sectors studied, in Zimbabwe.

4.3.2 Managerial level

Most respondents were junior managers (37.3%) followed by senior managers (32.7%) and lastly, owners (30%). The low percentage of owners could be an indication that more owners are increasingly relinguishing their responsibilities and allowing managers to run the businesses on their behalf, as agents.

Table 4.2: Managerial level of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Owner	33	30.0	30.0	30.0
	Senior Manager	36	32.7	32.7	62.7
	Junior Manager	41	37.3	37.3	100.0
	Total	110	100.0	100.0	

4.3.3 Ages of respondents

The 26-35 years age group was the most dominant (41.8%) while the over 56 years recorded the least respondents (4.5%). SMEs are being owned/managed by young people, who, probably due to the high unemployment rate are increasingly turning to entrepreneurship or management of small scale businesses. The 36-45 years category is the next dominant category constituting 25.5% and is closely followed by the 46-55 years category (20%). The 25 years and under category recorded 8.2%. Young people are turning to the SME sector probably due to the harsh economic environment that is leading to the shrinkage of the formal sector and to an increase in SMEs.

Table 4.3: Age composition

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25 years or under	9	8.2	8.2	8.2
	26 -35 years	46	41.8	41.8	50.0
	36-45 years	28	25.5	25.5	75.5
	46-55 years	22	20.0	20.0	95.5
	56 years or older	5	4.5	4.5	100.0
	Total	110	100.0	100.0	

4.3.4: Highest educational qualification held

It was important to find out the level of education of the respondents in order to establish if they understood the questions being asked on corporate governance. Managers/owners of SMEs with degree qualifications were 35.5% of the respondents followed by certificate level (24.5%) and Diploma level (23.6%). Masters and PHD levels only cover 16.3% of the respondents. This is an indication that SME owners/managers are moderately educated and have the capacity to carry out their operations in a professional way.

Table 4.4: Qualifications of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	27	24.5	24.5	24.5
	Diploma	26	23.6	23.6	48.2
	Degree	39	35.5	35.5	83.6
	Masters	16	14.5	14.5	98.2
	Doctor of Philosophy	2	1.8	1.8	100.0
	Total	110	100.0	100.0	

4.3.5 Years of experience

The majority of the respondents' experience in the businesses they were running was in the 10 years and above category (46%), with the 0-1 year category having the least number of respondents (6%) implying that SMEs are run by well experienced personnel.

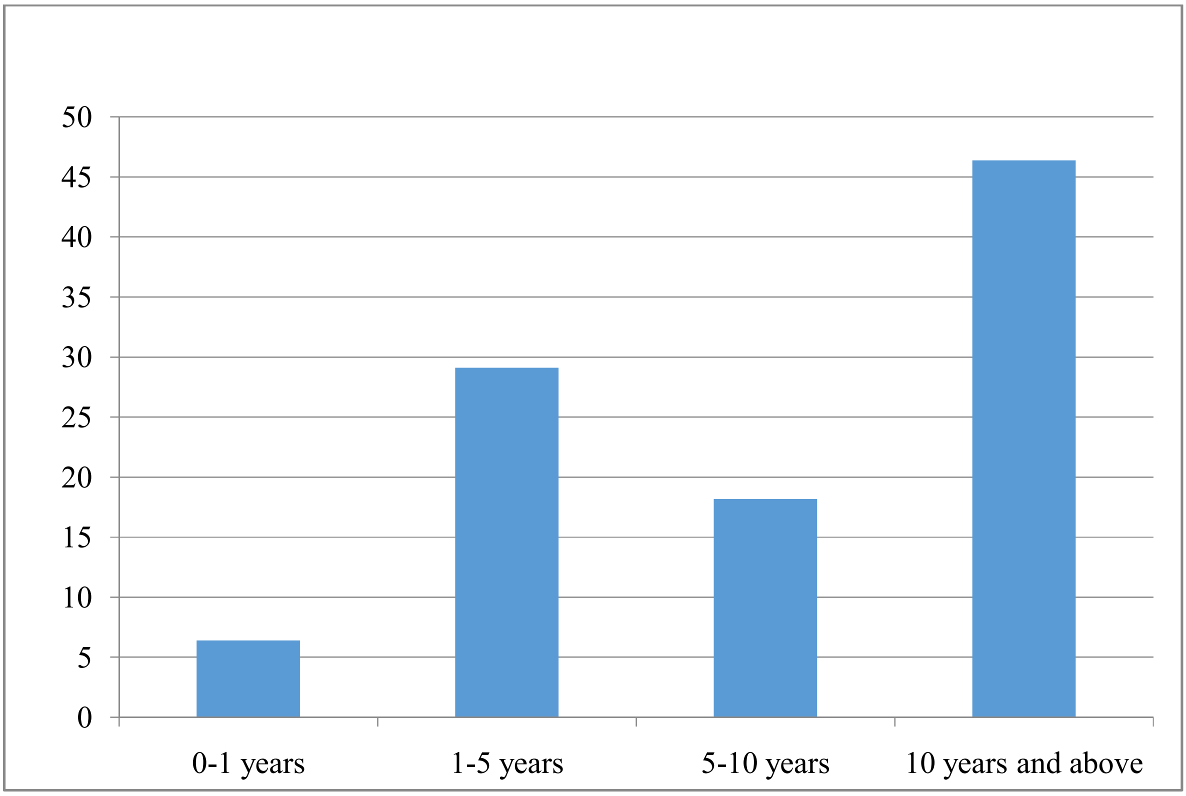

Figure 4.1: Years of experience of respondents

4.3.6 Business Sectors

The retail sector had the highest number of respondents amounting to 51.8% while the services sector was the second highest (31.8%) followed by the manufacturing sector which recorded 7.3%. Transport sector was the third highest (4.5%) while construction and other sectors had 3.6% and 0.9% respectively as shown in the pie chart below. Most SMEs are in the retail and services sectors probably due to the capital-intensive nature of other sectors that include the manufacturing, transport and construction sectors.

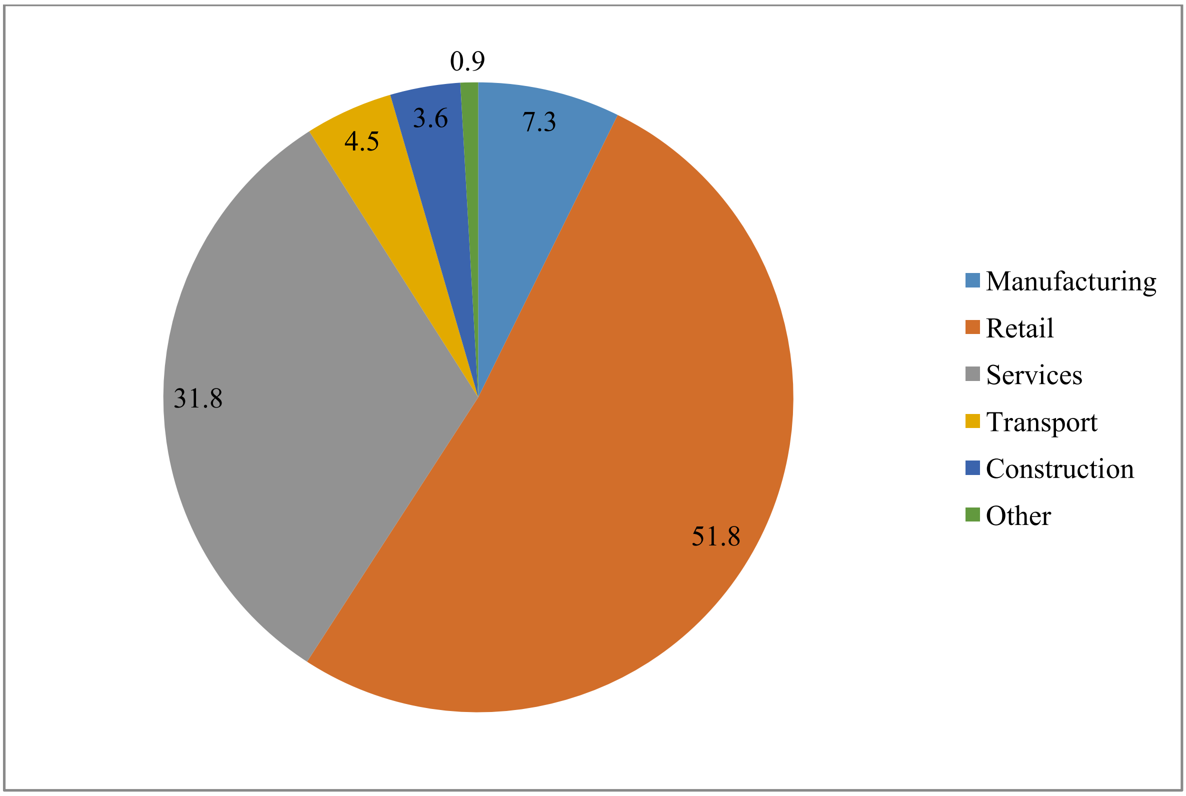

Figure 4.2: **Distribution of respondents by business sector**

4.3.7 Company size

The number of employees was used as a measure of the company size to determine whether it was micro, small or medium enterprise. From the SMEs studied, 47.3% were in the small enterprise category while 38.2% were in the micro enterprise category indicating that most SMEs are in the micro and small categories. The research initially targeted small and medium enterprises only to find out that some businesses that would normally have the number of employees in those categories had downsized due to the economic downturn. Medium enterprises constituted 11.8% of the respondents as indicated in the table below.

Table 4.5: Company size by the number of employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 employees	42	38.2	38.2	38.2
	6-40 employees	52	47.3	47.3	85.5
	41-75 employees	13	11.8	11.8	97.3
	More than 75 employees	3	2.7	2.7	100.0
	Total	110	100.0	100.0	

4.3.8 Operational period

Most of the businesses have been in operation for more than 10 years (43.6%), while 8.2% have been operating for less than 2 years as indicated in table 4.7. This could be an indication that it may be getting increasingly difficult to start businesses due to the unfavourable operating environment.

Table 4.6: Operational period of the businesses

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 2 years	9	8.2	8.2	8.2
	More than 2 years but less than 5 years	22	20.0	20.0	28.2
	More than 5 years but less than 10 years	31	28.2	28.2	56.4
	More than 10 years ago	48	43.6	43.6	100.0
	Total	110	100.0	100.0	

4.3.9 Board Independence

Four characteristics of board independence were studied and these were percentage of outside directors, business dealings with company, relationship with executives and cross-directorships.

Almost all the respondents' outside directors were in the 0-25% category (81.8%) and only 5.4% were in the 'above 50%' category (table 4.7). The results are supportive of the lack of board independence in SMEs in terms of the number of non-executive directors. In terms of good corporate governance, the number of non-executive directors should be more than 50% of the directors in the Board of Directors. Linking it with the outcome of Business performance, there seems to be a positive relationship in that the less the number of outside directors, the poorer its performance is.

Table 4.7: Percentage of Outside directors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	1	.9	.9	.9
	0-25 %	90	81.8	81.8	82.7
	26-50 %	13	11.8	11.8	94.5
	51-75 %	3	2.7	2.7	97.3
	75 % and above	3	2.7	2.7	100.0
	Total	110	100.0	100.0	

In terms of business dealings with company, relationship with executives and cross-directorships, the results are shown graphically in figure 4.3. On business dealings with company, more than 50% of the respondents (about 56%) were uncertain while 22% were either in agreement or in disagreement (Table 4.8). The respondents who were uncertain may have responded so because they either did not have outside directors to report about or did not have any board of directors at all. Since 22% were in agreement it may mean that about

80% of the respondents do not have the appropriate corporate governance principles resulting in the underperformance of their businesses.

Table 4.8: Business dealings with company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	10	9.1	9.1	9.1
	Disagree	15	13.6	13.6	22.7
	Uncertain	61	55.5	55.5	78.2
	Agree	15	13.6	13.6	91.8
	Strongly Agree	9	8.2	8.2	100.0
	Total	110	100.0	100.0	

A small percentage constituting 19% was in disagreement that the non-executive directors are affiliated to the executive directors while 30% is in agreement, with 5 % being uncertain as shown in table 4.9. The lack of good governance results in poor performance by the business.

Table 4.9: Relationship with executives

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	12	10.9	10.9	10.9
	Disagree	9	8.2	8.2	19.1
	Uncertain	56	50.9	50.9	70.0
	Agree	18	16.4	16.4	86.4
	Strongly agree	15	13.6	13.6	100.0
	Total	110	100.0	100.0	

On the issue of cross-directorships, the majority of the respondents were uncertain (52%) while 29% were in disagreement. Only 19% were in agreement that there was cross directorships between outside directors' companies and the executive directors of the businesses under study (table 4.10). The uncertainty could be an indication of non-existence of Board of Directors or of non-executive directors in the businesses.

Table 4.10: Cross-directorships

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	14	12.7	12.7	12.7
	Disagree	18	16.4	16.4	29.1
	Uncertain	57	51.8	51.8	80.9
	Agree	11	10.0	10.0	90.9
	Strongly agree	10	9.1	9.1	100.0
	Total	110	100.0	100.0	

4.3.10 Internal Controls

Internal controls are a good corporate governance principle for any business. Five aspects of internal control were considered in the survey and the results are illustrated in the graph shown in Figure 4.4 and they include daily reconciliation, separation of roles in employees, safety of assets, training of employees on internal controls and use of computers for daily transactions.

The majority of the respondents showed satisfaction with their daily reconciliation (45.5 %) and 27 % were very satisfied while 16 % are averagely satisfied. Only 11 % are dissatisfied. The results generally indicate that most SMEs do carry out daily reconciliation in their businesses. Most respondents are satisfied with the separation of roles by their employees, with a total of 65 % showing satisfaction, with 24 % being averagely satisfied. Only 11 % are dissatisfied implying that in most SMEs separation of roles and responsibilities is clear. SMEs secure their assets from theft and damage as shown by the results in the figure 4.4. Respondents who are dissatisfied amount only to 14.5 % while 47 % are satisfied and 21 % even very satisfied with their security systems. The internal control system of ensuring safety of assets seems to be observed by most SMEs. Most respondents are satisfied that they train their employees adequately on internal controls, indicated by a total of 60 % compared to 16 % who are dissatisfied. However, 23 % have average satisfaction regarding the training of employees. Generally, SMEs adequately train their employees regarding internal controls. SMEs are increasingly embracing technology as they are utilising computers in their daily operations as implied by the findings in the survey, wherein 30 % of the respondents were very satisfied with 38 % indicating that they were satisfied. Only 15 % were dissatisfied while the rest had average satisfaction. Most SMEs do observe internal controls judging from the findings of the survey. However, in linking internal controls to business performance, there seems to be a negative relationship in that despite observation of internal controls (a good corporate governance principle), the performance of the business is poor.

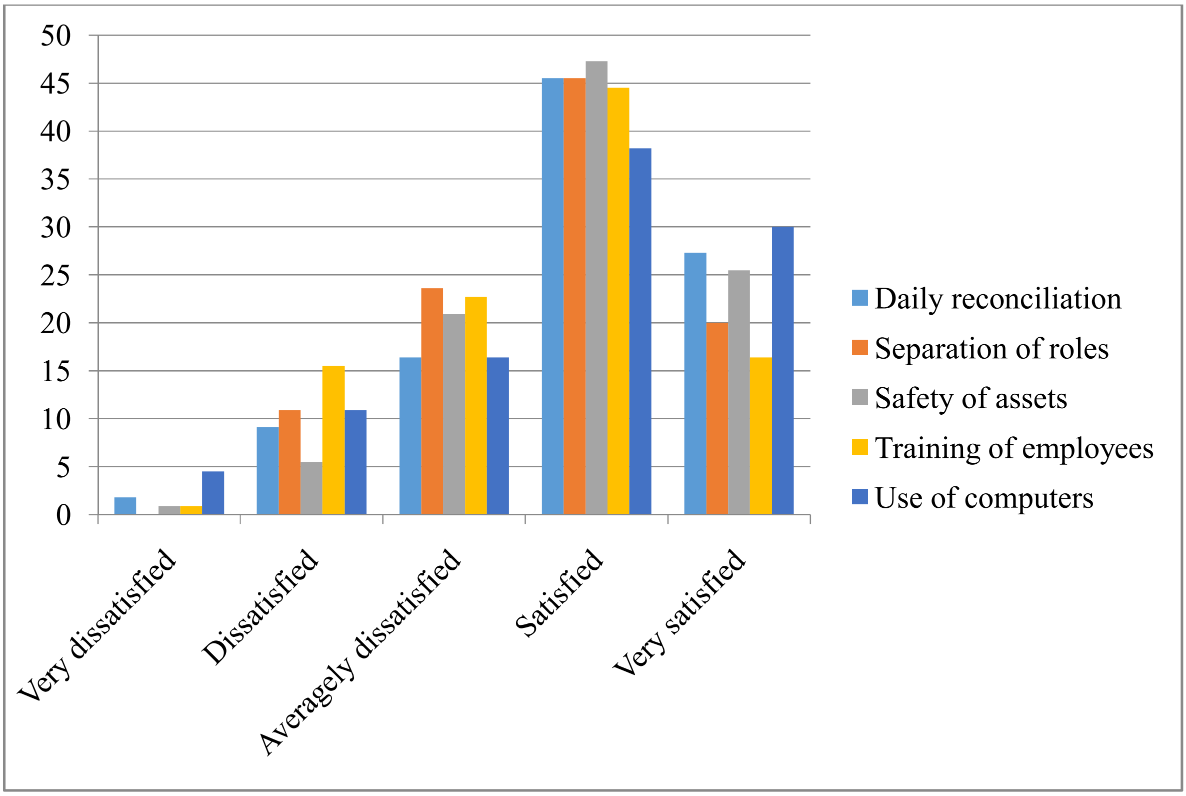

Figure 4.3: Adherence to internal controls by SMEs

4.3.11 Disclosure

Disclosure was one of the independent variables tested in the study. Attributes considered were preparation of financial statements, existence of code of good corporate governance, availability of mission statement, internal audit function and external audit of financial statements. The results are illustrated in figure 4.5.

On the preparation of financial statements, half of the respondents agreed that they do prepare financial statements while 35% strongly agree that they follow that practice. Only 11% are in disagreement implying that SMEs do prepare financial statements as a form of disclosure. A surprising number of respondents recorded that they had a Code of good corporate governance with 37% being in agreement. However, the other 46% admitted that they did not have it while 16% was uncertain. There is a good chance that most of the respondents were confusing it with the Code of conduct as some respondents admitted.

Most SME businesses have Mission and Vision statements as shown by the response of 71% for those who are in agreement while 21% do not have the statements. The results indicate that the SMEs disclose clearly who they are and where they want to go regarding their businesses. Audit is an important corporate governance tool for any business and is an indication of good corporate governance. Internal audit is practised by 62% of the SMEs of which 17% registered a strong affirmation regarding internal audit of their systems. Those who do not practise it are just 29% and so, in terms of disclosure, SMEs seem to be practicing good corporate governance. There has been a low uptake of the external audit function by SMEs with 39% registering agreement to the use of external audit. About 52% disagree that their accounts or systems are audited externally. Generally, feedback from respondents indicates that SMEs observe the aspect of disclosure in the running of their businesses. However, this good corporate governance principle does not translate into a positive relationship with business performance.

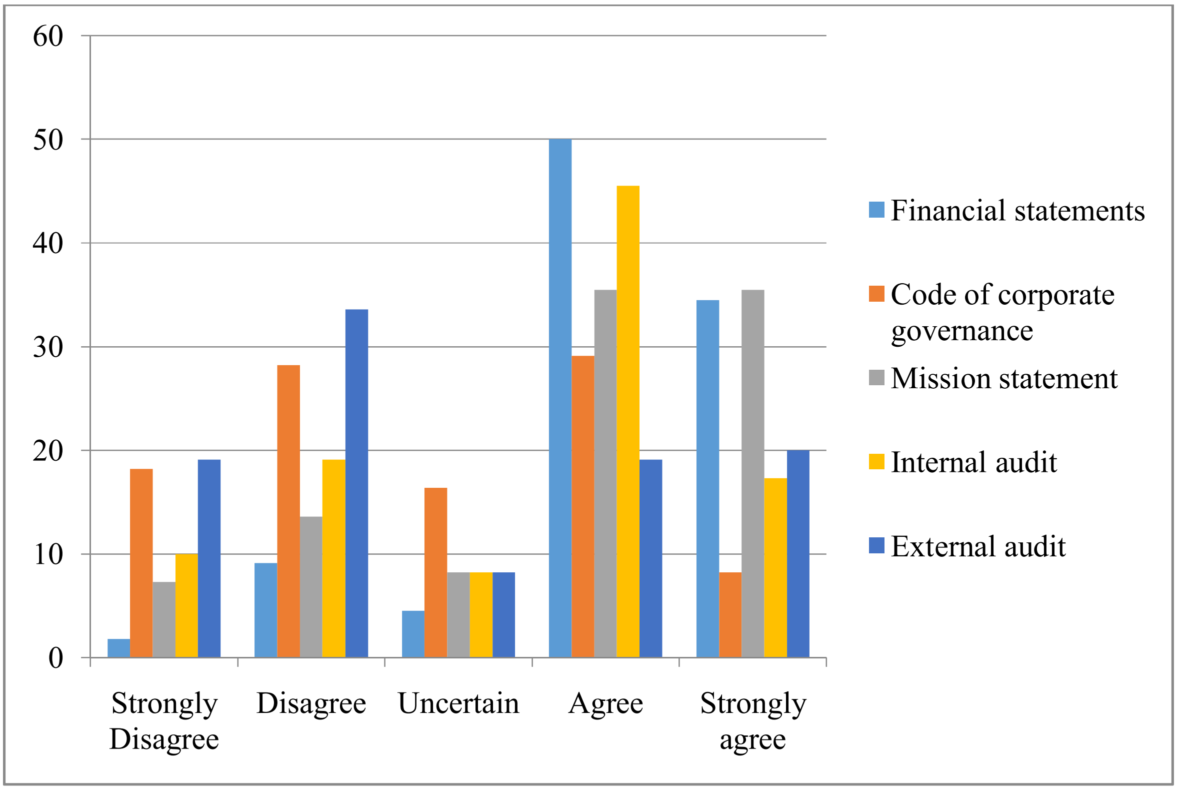

Figure 4.4: Disclosure in SMEs

4.3.12. Owner-Manager separation

The owner-manager separation is a good corporate governance measure in businesses. Four attributes linking owner to manager are considered.

In the owner being also the manger situation, the respondents who were strongly in agreement were 28% with 19% being in agreement. However, a total of 52% were in disagreement implying that owners are handing over the management of their businesses to agents or managers as shown in the table 4.11.

Table 4.11: Manager also owner

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	24	21.8	21.8	21.8
	Disagree	33	30.0	30.0	51.8
	Uncertain	1	.9	.9	52.7
	Agree	21	19.1	19.1	71.8
	Strongly agree	31	28.2	28.2	100.0
	Total	110	100.0	100.0	

In most SMEs the manager is not related to the owner. A percentage of 23% strongly agree that there is a relationship with those who agree constituting 19%. On the whole the respondents disagreed that there is relationship between owners and managers in SMEs with 35.5% disagreeing and 17% being in strong disagreement.

Table 4.12: Manager related to owner

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	19	17.3	17.3	17.3
	Disagree	39	35.5	35.5	52.7
	Uncertain	6	5.5	5.5	58.2
	Agree	21	19.1	19.1	77.3
	Strongly agree	25	22.7	22.7	100.0
	Total	110	100.0	100.0	

A high proportion of respondents agreed that owners overshadow managers in the running of the businesses, those in agreement making up to 45.5% of the total. However, those in disagreement are a close 41%.

Table 4.13: Owner overshadowing manager

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	17	15.5	15.5	15.5
	Disagree	28	25.5	25.5	40.9
	Uncertain	15	13.6	13.6	54.5
	Agree	30	27.3	27.3	81.8
	Strongly agree	20	18.2	18.2	100.0
	Total	110	100.0	100.0	

Most managers of SMEs are not shareholders of the businesses. Respondents who disagreed represent 34.5% while those in strong disagreement are 15.5%. On the other hand 45% of respondents are in agreement. When managers are not shareholders, it becomes a good corporate governance principle. The manager-owner separation principle is being practiced by SMEs to a larger extent and is a corporate governance principle that is supposed to result in better business performance. However, in this case, there is a negative performance measure as shown in figure 4.6.

Table 4.14: Manager also a shareholder

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	17	15.5	15.5	15.5
	Disagree	38	34.5	34.5	50.0
	Uncertain	5	4.5	4.5	54.5
	Agree	22	20.0	20.0	74.5
	Strongly agree	28	25.5	25.5	100.0
	Total	110	100.0	100.0	

4.3.13: Business Performance measure

Business performance is the outcome or dependent variable in the study and is measured, in this case, by increase in sales, profits, employees, branches and return on assets.

Sales of a business are a good performance measure and if they are increasing then it is an indication that the business is performing well. On the whole, sales are increasing as shown by the 13% and 33% for those who strongly agree and those who agree, respectively. Respondents whose sales are decreasing are 41% while 14% are uncertain. Most respondents‘ profits are not increasing (46%) although a significant percentage of respondents are in agreement. Some 11% strongly agree that the profits are increasing while 25.5% agree. Thus, on the whole, the business performance measure is negative that is, there is poor performance by the businesses. The number of employees is not increasing as indicated by 14.5% in strong disagreement and 59% in disagreement. Only 22% of the businesses are increasing the number of employees. This implies that growth is not taking place in the business and therefore performance is low. About 22% strongly disagree that new branches were opened while 51% disagree. On the other hand only 6 % strongly agree with 18% in agreement. This implies that the businesses’ performance is low in that there is no growth. It seems there was uncertainty (20.9%) on the return on assets. Probably the managers did not understand what it was. However, 50% were in disagreement that the ROA was increasing thus on the whole, the performance is low.

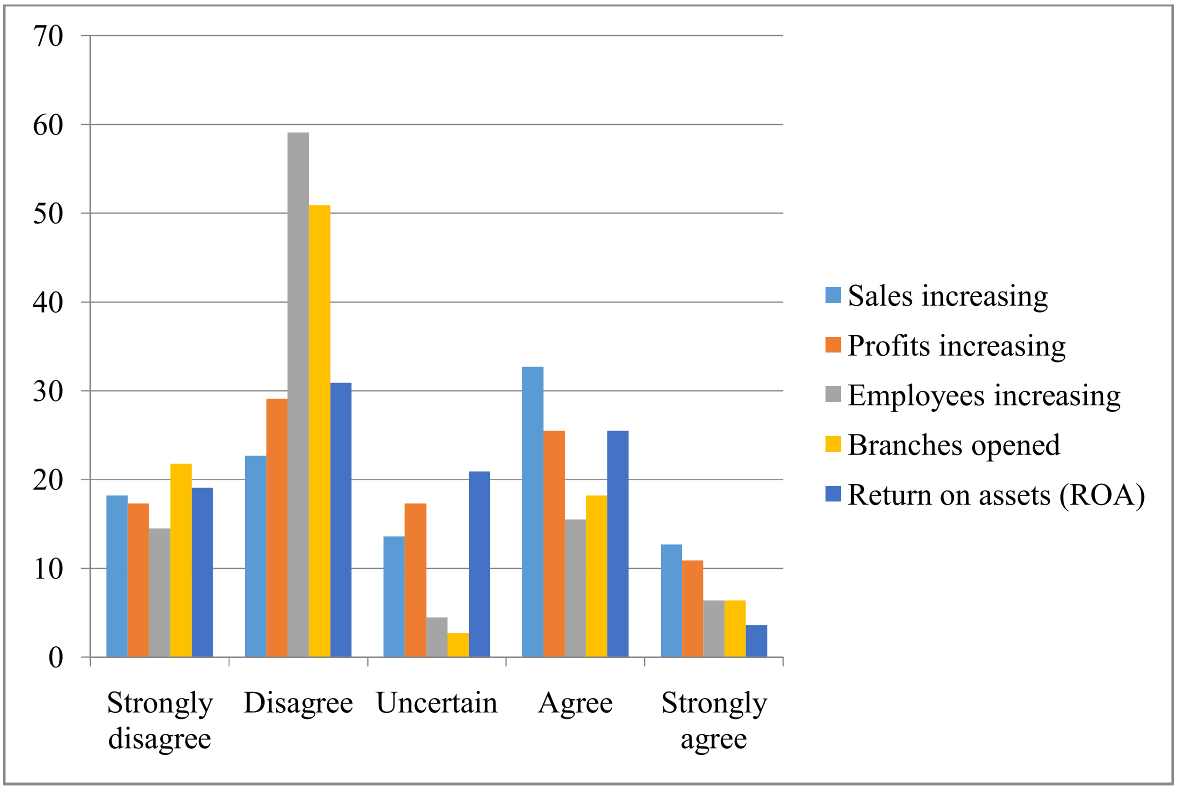

Figure 4.5: Business performance measures

Overall, the business performance is depressed or negative in SMEs, despite the fact that some SMEs practise some good corporate governance principles. However, the depressed state could be due to the prevailing harsh economic conditions being faced by businesses in Zimbabwe as some managers cited.

4.4 DESCRIPTIVE TESTS

Descriptive tests are statistical procedures used for summarizing, organizing, graphing, describing data. They include measures of dispersion such as mean, standard deviation, mode and median. The attributes considered are shown in table 4.8. The mean for age was 2.71 and using the Likert scale, the age group is between the 26-35years and 36-45 years categories and, therefore, ranges from 26-45 years. The age of the respondents generally consists of young up to middle aged people in the SMEs. The maturity of the respondents who participated gives confidence on the authenticity of the responses given. For years of experience, the mean was 3.05 pointing to respondents having more than 10 years experience on their jobs reflecting that the majority of SME managers/owners are experienced in their fields. A mean of 1.79 for company size puts the majority of respondents in the 1- 40 employees category, indicating that most SMEs are in the micro and small enterprises. Most SMEs were set up between 5 and 10 years ago (3.07) and this reflects on their capacity to survive even in the harsh economic environment that the country is going through. On the independent variables, use of computers as an internal control measure and a mean of 3.78 was obtained indicating that most respondents are relatively satisfied with their use of computers in the business. The return on assets as a measure of business performance resulted in a mean of 2.64 meaning that this measure of profitability is depressed in most SMEs.

Table 4.15: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Age	110	1	5	2.71	1.026
Years of experience	110	1	4	3.05	1.008
Company size	110	1	4	1.79	.755
Operational period	110	1	4	3.07	.983
Use of computers in daily operations	110	1	5	3.78	1.128
Return on assets increasing	110	1	5	2.64	1.163
Valid N (listwise)	110				

4.5 NORMALITY TEST

A normality test is done to establish how data is distributed, to find out if data is normally distributed or not. If the data is normally distributed then parametric tests may be done but if it is not normally distributed the non-parametric tests will be chosen (Table 4.9). The Shapiro-Wilk results were considered as the Kolmogorov-Smirnov test measures larger samples that are more than 1000. The results are generally statistically significant ($p < 0.05$) and therefore the data is not normally distributed and qualifies for non-parametric tests.

Table 4.16: Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Board Independence	.267	110	.000	.863	110	.000
Internal Controls	.128	110	.000	.974	110	.027
Disclosure	.079	110	.090	.977	110	.058
Owner-Manager Separation	.155	110	.000	.938	110	.000
Business Performance Measure	.099	110	.010	.971	110	.018

a. Lilliefors Significance Correction

4.6 VALIDITY AND RELIABILITY TESTS

4.6.1 Validity test

To test the validity of the research instrument, a pilot study was conducted in which 16 questionnaires were used to check the validity of the questions before launching the main survey. The pilot test, through reliability tests revealed that there were some questions which needed rephrasing for them to be understood clearly and others that had to be removed completely before launching the main survey. Validity was also ensured through using a relatively large sample in the survey.

4.6.2 Reliability test

Reliability tests were performed on all the variables as shown in table 4.24. The Cronbach's Alpha coefficient is an indicator of internal consistency and ensures that the research instrument items are measuring the same construct. For data to be considered reliable, the Cronbach's Alpha coefficient should be greater than 0.6 for exploratory studies otherwise the recommended threshold is 0.7 (Haire *et al*., 2006). After the pilot study, some items were deleted and others rephrased in order to come up with Cronbach's Alpha coefficient equal or more, than the recommended minimum. Items that were omitted after the pilot study were questions that required 'yes/no' answers. These questions were asked in the board independence and owner-manager separation sections. Removal of these questions and rephrasing of some questions in the board independence section improved the reliability of the instrument. After the adjustments, all the items were close to or above 0.7 and the overall coefficient was 0.771, thus, ensuring reliability of the research instrument as shown in table 4.17.

Table 4.17: Reliability test using Cronbach's Alpha coefficient

Variable	Cronbach's Alpha coefficient	Number of items
Board Independence	0.652	4
Internal Controls	0.717	5
Disclosure	0.770	5
Owner-Manager Separation	0.793	4
Business Performance	0.861	5
Entire Instrument	0.771	23

4.7 CORRELATION ANALYSIS

Correlation analysis shows direction, statistical significance and magnitude of relationships between variables. Direction is the sign of the relationship and can either be positive or negative, where a positive sign (+) signifies a positive relationship while a negative sign (-) means that there is a negative realationship between the variables. A relationship is of statistical significance if the p value is less than 0.05. The magnitude determines the strength of the relationships between the variables. If the magnitude is less than 0.3 it signifies a weak relationship while 0.3 to 0.499 is indicative of a moderate relationship. A magnitude of 0.5

and above implies a strong relationship between variables. The correlation of the variables under study is shown in table 4.18 below.

Spearman's correlation was used in the analysis. The method is a non-parametric test for evaluating the degree of linear association between variables. In this case it was used to evaluate the degree of linear association between the independent variables and the dependent variable and also amongst the independent variables themselves. The highest significant positive correlation between independent and dependent variables was found between disclosure and business performance (0.384) and the second highest of 0.361 was between internal controls and business performance. The relationship is a moderate one since it lies between 0.3 and 0.499. The relationship between the other independent variables, board independence and owner-manager separation with business performance were not significant. There seems to be some collinearity between the independent variables and the highest positive correlation is between internal controls and disclosure (0.515) indicating a strong relationship between the two variables at the 99 % significance level ($p < 0.01$). Disclosure is also lowly correlated with board independence showing a positive correlation of 0.189 at the 95 % significance level. On the other hand there is significant negative, low relationship of -0.2.13 between owner-manager separation and disclosure.

The model has a significant positive moderate correlation of two independent variables with the dependent variable thus giving a high level of confidence that the model can be used as a predictor of business performance.

Table 4.18: Correlations between variables

			Board Independence	Internal Controls	Disclosure	Owner-Manager Separation	Business Performance Measure
Spearman's rho	Board Independence	Correlation Coefficient	1.000				
		Sig. (2-tailed)	.		.		
	Internal Controls	Correlation Coefficient	-.040	1.000			
		Sig. (2-tailed)	.682	.			
	Disclosure	Correlation Coefficient	.189*	.515**	1.000		
		Sig. (2-tailed)	.048	.000	.		
	Owner-Manager Separation	Correlation Coefficient	.064	-.180	-.213*	1.000	
		Sig. (2-tailed)	.503	.060	.026	.	
	Business Performance Measure	Correlation Coefficient	.126	.361**	.384**	-.044	1.000
		Sig. (2-tailed)	.191	.000	.000	.645	.
		N	110	110	110	110	110

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

4.8 REGRESSION ANALYSIS

4.8.1 Model Summary

Regression is the predictive or cause-effect relationship between variables and is more robust than correlation coefficient analysis. According to the model given in table 4.12, board independence, internal controls, disclosure and owner-manager separation; explain 24.1% of the total variation in business performance. The other 75.9% is explained by other factors which are outside the study's focus.

Table 4.19: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.491[a]	.241	.212	4.353

a. Predictors: (Constant), Owner-Manager Separation, Board Independence, Internal Controls, Disclosure
b. Dependent Variable: Business Performance Measure

4.8.2 ANOVA F test

Using the Analysis of variance (ANOVA) as given in table 4.13, the model is statistically significant that is, one can predict results using the model as opposed to guessing. It reflects on the suitability of the model and has an F value of 8.34. The corporate governance principles, board independence, internal controls, disclosure and owner-manager separation are a predictor of business performance.

Table 4.20: ANOVA results-F test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	631.998	4	157.999	8.340	.000[b]
	Residual	1989.320	105	18.946		
	Total	2621.318	109			

a. Dependent Variable: Business Performance Measure

b. Predictors: (Constant), Owner-Manager Separation, Board Independence, Internal Controls, Disclosure

4.8.3 Beta Coefficients

The model can also be analysed using Beta values which show contribution or magnitude of a particular variable in influencing the outcome. Table 4.14 shows the relationship between the independent and dependent variables as indicated by the Beta values leading to the following conclusions:

1. There is a statistically insignificant relationship between business independence and business performance (β=0.024, $p > 0.05$). Reject null hypothesis.
2. There is a statistically significant relationship between internal controls and business performance (β=0.250, $p < 0.05$). Accept null hypothesis.
3. There is a statistically significant relationship between disclosure and business performance (β=0.324, $p < 0.05$). Accept null hypothesis.
4. There is a statistically insignificant relationship between owner-manager separation and business performance (β=0.072, $p > 0.05$) Reject null hypothesis.

Thus, disclosure and internal controls are significantly predicting the outcome while the other variables board independence and owner-manager separation are not significant.

Value inflation factor or VIF denotes the extent of multicollinearity and is usually indicated if the value exceeds 5 (Alaudin, Butler and Green, 2003). All the VIF values (table 4.21) of the variables are less than 2 and therefore show that there is no multicollinearity amongst the variables. This implies that the regression coefficients were not poorly estimated.

Table 4.21: Using Beta Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-1.032	3.251		-.317	.752	-7.478	5.414					
	Board Independence	.043	.160	.024	.270	.788	-.273	.359	.078	.026	.023	.931	1.074
	Internal Controls	.367	.147	.250	2.501	.014	.076	.658	.400	.237	.213	.726	1.378
	Disclosure	.352	.112	.324	3.146	.002	.130	.574	.439	.294	.267	.682	1.466
	Owner-Manager Separation	.076	.093	.072	.820	.414	-.108	.259	-.037	.080	.070	.939	1.065

a. Dependent Variable: Business Performance Measure

4.8.4 Mann-Whitney-U test

The Mann-Whitney U test is used to test the difference between two independent groups of categories on a continuous measure. The test only applied to gender and the result was insignificant reflecting that there is no statistical difference between males and females regarding business performance in SMEs. The results are depicted in a hypothesis test summary given in table 4.22 below.

Table 4.22: Mann-Whitney U test for gender

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The distribution of Business Performance Measure is the same across categories of Gender.	Independent-Samples Mann-Whitney U Test	.325	Retain the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

4.8.5 Kruskal-Wallis test

The Kruskal Wallis Test is used to measure differences between more than 2 continuous groups of categories in a given variable. This is done by cross tabulating the variables with the outcome, business performance. Only highest educational qualifications results were found to be statistically significant. Table 4.16 shows different mean ranks for the educational qualifications and the test statistics indicating that the results are significant. The results indicate that people with different levels of education have different perceptions on the outcome and, therefore, educational qualification is an explanatory variable.

Table 4.23: Mean Ranks

	Highest Educational Qualification held	N	Mean Rank
Business Performance Measure	Certificate	27	38.89
	Diploma	26	60.96
	Degree	39	59.96
	Masters	16	62.72
	Doctor of Philosophy	2	64.00
	Total	110	

Table 4.24: Test Statistics

Test Statistics[a,b]

	Business Performance Measure
Chi-Square	9.883
df	4
Asymp. Sig.	.042

a. Kruskal Wallis Test
b. Grouping Variable: Highest Educational Qualification held

4.9 DISCUSSION OF RESULTS

4.9.1 Findings in relation to literature

The study set out to assess the importance of corporate governance in Zimbabwean SMEs through studying the impact of some selected corporate governance practices in relation to business performance. There was a substantial amount of literature available in relation to corporate governance in SMEs in the literature review section.

In the literature review, upholding of good corporate governance was generally considered to have a positive impact on business performance. In the study one of the corporate governance principles looked at was board independence. The findings were that there is no board independence in SMEs and at the same time no significant relationship was found between board independence and business performance. This goes against several authors whose studies revealed a positive relationship between the two variables. However, the results support the findings by other authors who also found no relationship between board independence and business performance. The researchers include Rashid and Lodh (2008) and recent studies by the authors Akpan and Amran (2014). In addition, Tan *et al*. (2015) found that the presence of outside directors does not improve SME performance.

This phenomenon in Zimbabwe may be due to the fact that most SMEs are in the micro and small enterprises which are not big enough to support a big or sophisticated board with non-executive directors and do not have the necessary appropriate structures that would enable them to realize the benefits of outside directors. Some SMEs do not even have boards to begin with. Establishment of boards may be a financial drain on these up and coming companies and therefore they might prefer just to have a minimum number of executive directors in order to remain viable.

The second variable considered in the study was internal controls in which the objective was to establish if internal controls have a positive impact on business performance. The results indicated that indeed internal controls have a significant positive impact on the performance of SMEs according to the regression analysis made on the variable. In relation to the literature review, several authors were of the view that internal controls have a significant impact on business performance. A study by Nyakundi *et al*. (2014) led to the conclusion that implementation of internal control systems in SMEs in Kenya‘s Kisumu district, have a significant impact on the financial performance. Further support is from Shnmugan *et al*. (2012) and Olatunji (2013) who posit that adoption of sound internal control systems in SMEs enhance the business performance.

Disclosure was also studied in the present research to find out if this corporate governance practice has a positive impact on the performance or profitability of the business. The results on the cause-effect analysis of disclosure and business performance indicated that disclosure positively affects business performance in SMEs. With reference to literature, most researchers are in support of disclosure both financial and non-financial as working towards enhancing the performance of businesses. Openness and transparency through disclosure of information that includes financial statements, mission or vision statements and code of good corporate governance is considered key in as it ensures that stakeholders can interact and evaluate the business (Parum, 2005). The results are therefore in agreement with literature and disclosure needs to be considered as a good corporate governance principle that can lead to better business performance.

Owner-manager separation could lead to profitability in a business as the owner allows the manager to act as their agent in the running of the company. This is what the research sought to establish in one of its objectives. However, the findings of the analysis show that there is no cause-effect relationship between owner-manager separation and business performance that is, owner-manager separation is not an explanatory variable for business performance in Zimbabwean SMEs. The findings are in agreement with some researchers who find a negative relationship in situations where agents run the business, and profitability. Studies by Chu (2009) reveal that there is a significantly positive relationship between owner-managers and the profitability of the business. Vos (2008) also finds a positive relationship in cases where there is owner-manager duality. This seems to go against findings by Musanzwika (2014) whose study revealed that lack of separation of owners from management lead to less accountability and therefore corporate governance problems.

Control variables that were taken into consideration for the conceptual framework were gender, manager experience, firm size and manager qualifications. The research analysis found only the manager qualifications as an explanatory variable for business performance. It therefore means that managers with different qualifications have different perception on the outcome which is business performance. Results from the other control variables were not statistically significant.

4.9.2 Hypothesis Testing

In chapter one the main hypothesis of the research was put forward as:

Corporate governance structures in Small and Medium Enterprises have a positive relationship with business performance.

The hypothesis can be further split into sub-hypotheses for the sake of testing them as individuals.

H1: *There is positive relationship between board independence and business performance in SMEs.*

From the findings it was established that there is no significant relationship between board independence and business performance in SMEs. The null hypothesis is therefore rejected.

H2: *There is a positive relationship between owner-manager separation and business performance.*

Results from analyses show that owner-manager separation is not a predictor of business performance that is, there is no cause-effect relationship between the two variables. The null hypothesis is therefore rejected.

H3: *Internal controls have a positive impact on the business performance of SMEs*

The results from regression analysis indicate that there is a cause-effect relationship between internal controls and business performance. We therefore accept the null hypothesis.

H4: *There is a positive relationship between disclosure and business performance.*

Research findings reflect that disclosure is an explanatory variable for business performance and thus has a positive effect on the outcome. The null hypothesis is accepted.

The overall result is that the model is a predictor of business performance and that it accounts for 24.1 % of variation in the outcome. Furthermore, the variables that had influence on the outcome were internal controls and disclosure. In addition, educational qualifications were also found to be an explanatory variable for business performance. From the findings in the study, business performance is therefore a function of internal controls and disclosure as given in the equation below:

Business Performance =£ (0.25 x internal controls + 0.324 x Disclosure)

4.10 CHAPTER SUMMARY

In the chapter, results were presented through various analyses in order to test the hypothesis put forward in chapter 1. These included frequency tests, descriptive tests, normality test and inferential statistics. The result, on the whole showed that internal controls and disclosure are explanatory variables for business performance in SMEs. The next chapter will make conclusions and suggest recommendations to the study.

CHAPTER 5

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The chapter's main purpose is to draw conclusions and make managerial recommendations from the findings of the research. The study‘s main purpose will be restated and the importance of the study will be reaffirmed by restating its main contributions. Furthermore, the results will be summarized in relation to each research objective and the managerial and policy implications discussed. The limitations that could influence internal and external validity of the study would also be discussed. Lastly, areas for further research on the topic will be suggested.

5.2 PURPOSE OF STUDY AND ITS MAIN CONTRIBUTIONS

The purpose of the research was to assess the importance of corporate governance in Zimbabwean SMEs through studying whether the existence of corporate governance structures in the businesses had a positive impact on the business performance. To our knowledge it is the first research to study the importance of corporate governance in SMEs in different business sectors. The study would contribute to SMEs by proffering policy recommendations that the research comes up with and also contribute to the body of knowledge through provision of empirical data on corporate governance structures in SMEs in Zimbabwe.

5.3 CONCLUSION AND ANSWERS TO RESEARCH QUESTIONS

Results from chapter four show that, overall, the model of the research is a predictor of the outcome. This implies that board independence, internal controls, disclosure and owner-manager separation have an impact on business performance in SMEs. However, only 24.1 % of the variation in business performance is explained by the stated variables.

Four objectives were stated in chapter one and the following conclusions were drawn against each of the objectives.

Objective 1

To examine whether board independence has an effect on the profitability of SMEs

The results from data analysis proved that board independence as indicated by percentage of outside directors and their relationship with the firm is not an explanatory variable for profitability or business performance in SMEs. In other words, putting in place a board with a large percentage of outside directors as a good corporate governance principle has no significant impact on business performance. The literature review gives varied views on the importance of board independence in SMEs. The variable can positively, negatively influence or have no significant influence on business performance. In the Zimbabwean context board independence therefore has no impact on business performance in SMEs. In any case, most SMEs in Zimbabwe are not large enough to have board of directors in their firms. The role of a board in an SME is a monitoring one to ensure better management of the organisation through the introduction of good corporate principles which should positively affect the performance of the SMEs.

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Objective 2

To evaluate if separation of owner from manager has an impact on business performance

From the findings in chapter 4, owner-manager separation does not have a significant effect on the performance of an SME business in Zimbabwe. Results from regression analysis indicated that owner-manager separation had no significant effect on the business performance. This is in agreement with several authors in the literature review who were advocating for owner-manager duality for SMEs citing the agency problem and the advantages of value creation through technology innovation, entrepreneurial activities, information advantage, investment efficiency, low agency costs and the continued presence of the owner which may lead to establishment of strong ties with the stakeholders of the business (Cho, 2009). In Zimbabwe, most of the SMEs may still be in their early phase and may require the entrepreneurial spirit of the owner for the success of the business.

Objective 3

To find out if the existence of internal controls has a positive effect on business performance

The results obtained in the research findings and discussion section led to the conclusion that the existence of internal controls in SMEs has a positive effect on business performance. Analysis by regression resulted in a significant relationship of internal controls and business performance with a beta coefficient of 0.25. This is supported by a majority of authors in the literature review whose studies revealed that existence of internal controls in SMEs had a positive effect on the business performance. Thus in the Zimbabwean context SMEs that put internal controls in place in their businesses should be able to realise profitability or good business performance. Osseifuah and Gyekye (2013) revealed that about 30 % of small businesses failure in the USA could be explained by poor internal controls leading to work crimes that include pilferage, embezzlement and fraud. Studies by several authors including Nyakundi *et al* (2014) led to the conclusion that internal control systems significantly impact financial performance in SMEs.

Objective 4

To establish if disclosure has a positive impact on business performance

Results from regression analysis show a significant relationship between the independent variable and the outcome with a beta coefficient of 0.324. Thus one can conclude that there is a positive relationship between disclosure and business performance in SMEs in Zimbabwe. As the company discloses its financial results and other pertinent information it displays some level of transparency to stakeholders resulting in good business performance. The result is supported by the literature review in which several authors found a positive relationship between disclosure and business performance. Studies by Parum (2005) indicated that transparency and openness in business brought about by disclosure is regarded critical as stakeholders can relate to and evaluate the businesses easily in their interaction with the company.

Besides the stated objectives, analysis of the results also showed that owner/manager qualification was a predictor of business performance. This implies that SMEs need to ensure that they consider employing highly qualified management in order to enhance business performance. Unlucan (2010) posits that education and training of owner/managers in SMEs can help the business to survive.

Disclosure had the greatest effect followed by internal controls, with board independence and owner-manager not having a significant impact on business performance. Thus, corporate governance is important to SMEs as it impacts to some extent on their business performance.

5.4 THEORETICAL CONTRIBUTION

The research findings have contributed to the body of knowledge and existing literature on the importance of corporate governance practices in Zimbabwean SMEs. Available literature concentrated on the study of one sector of the SMEs, case studies and in some cases a single aspect of corporate governance in SMEs. However, the study has focused on four corporate governance principles in different sectors of SMEs, therefore, providing empirical data that future studies can build up on. It is the first research that has been conducted on the corporate governance principles board independence, owner-manager separation, internal controls and disclosure and their influence on business performance in Zimbabwe.

The study revealed that only 24.1 % of the variation in business performance in SMEs is caused by the independent variables and the rest is caused by other factors which were outside the focus of the study. Internal controls and disclosure were found to have a significant impact on the business performance in SMEs. A model that predicts business performance in SMEs is therefore largely determined by internal controls and disclosure. Internal controls as a form of good corporate governance principle lead to greater accountability and profitability of a firm. Investors may also be willing to invest in an SME that discloses its financial and non-financial information as it shows transparency by the organisation. In addition, owner/manager qualifications were discovered in the course of the study, to also have an impact on the business performance. The findings have necessitated the revision of the conceptual framework to that given in figure 5.1, where only internal controls and disclosure are explanatory independent variables of business performance while board independence and owner—manager separation are not (represented by dotted lines). The figures shown on each variable represent regression beta coefficient values.

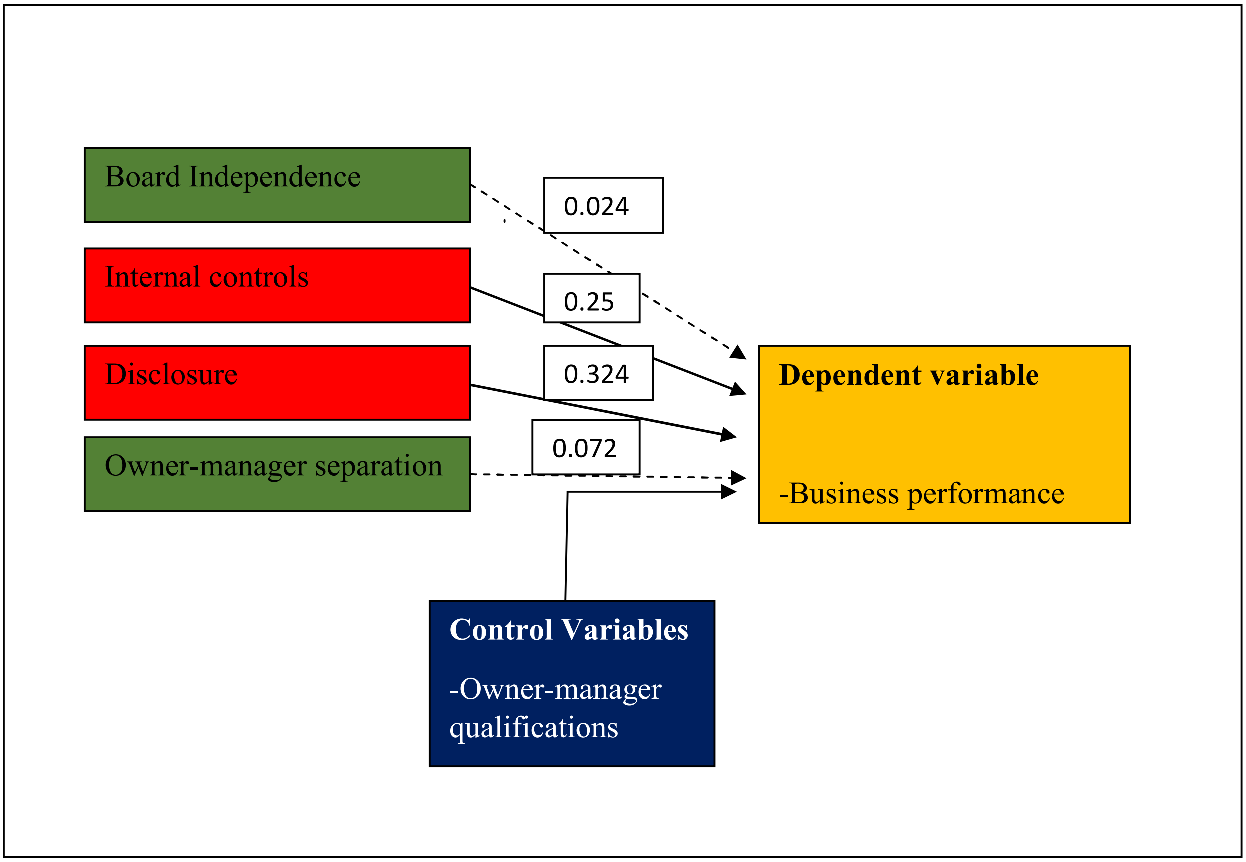

Figure 5.1: Revised Conceptual Framework showing corporate governance explanatory variables of business performance in SMEs.

5.5 MANAGERIAL AND POLICY RECOMMENDATIONS

The research makes the following policy recommendations:

5.5.1 Implementation of internal control systems in SMEs

Internal controls were found to have a significant impact on business performance therefore; it is recommended that proper internal control systems are put in place in businesses and implemented for the success of SMEs. Literature suggests the implementation of internal controls in order to address identified business risk that may threaten the success of the company and to create an environment of efficiency and effectiveness (Osseifuah and Gyekye, 2013).

5.5.2 Disclosure by SME businesses

It is recommended that SMEs disclose the relevant information in order to record successes in their business performance. From the corporate governance principles used in the research, disclosure was found to be the most significant in predicting the outcome. Therefore, the SMEs need to ensure they put in place mechanisms for regular, accurate and timely reporting of information to the relevant stakeholders including statutory bodies, board members and shareholders. Both financial information that include financial statements and non-financial information should be disclosed.

5.5.3 Non-effectiveness of outside board members

It is recommended that SMEs might not need to have a large proportion of non-executive directors in their boards. Board independence was not found to have any significant relationship with the outcome so SMEs can do without this corporate governance principle that may only be suitable for large companies. Having a board may be too costly for small businesses which characterise Zimbabwean SMEs.

5.5.4 Non-effectiveness of Owner-manager separation

It is recommended that SME owners play a big role in the management and oversight role of the company. Owner-manager separation does not seem to have a significant effect on performance with some literature citing a negative effect. Chu (2009) finds a positive effect on profitability if the owner is involved in management and control and vice versa. This is further supported by several authors including Vos and Roulston (2008) who find a positive link between degree of owner involvement and profitability of the SME.

5.5.5 High Educational qualifications for managers

It is also recommended that qualifications are considered in the employment of managers in SMEs as the research results indicated that there was positive relationship between educational qualifications and business performance in Zimbabwean SMEs. Owners should also ensure that they get the necessary qualification in order to run their businesses effectively since most of them are heavily involved in the running of the companies.

5.6 GENERALISATION OF FINDINGS

The study covered 110 SMEs in Zimbabwe in different business sectors. The results can be generalised to all Zimbabwean SMEs not covered in the study.

5.7 RESEARCH LIMITATIONS

The research had some limitations and could have affected internal and external validity of the results to some extent. The fact that non-probability sampling was used might have an effect on the statistical analysis of the results. More independent variables could have been included in the conceptual framework in order to improve the model. All participants were drawn from the Harare Metropolitan area and the sample size was small relative to the number of SMEs even in Harare. There was a limitation of the period within which the research was supposed to have been completed in. A larger sample could have been collected if the time was not limited. Furthermore some potential respondents were reluctant to participate in the study citing confidentiality issues despite assurances from the researcher and the educational institution (UZ- Graduate School of Management) that the results were very confidential and only for academic purposes.

5.8 AREAS OF FURTHER STUDY

The results indicated that only 24.1 % of the variation in the business performance in SMEs was caused by the variables under study, that is, board independence, internal controls, disclosure and owner-manager separation. The other 75.9 % is a result of other variables that were not included in the research. For further studies, it is proposed that other variables on corporate governance that have an effect on business performance be explored. These variables can include corporate social responsibility, to find out if the practice in SMEs has positive impact on the business performance.

The study was only restricted to Harare and it would be useful to also find out if the same results could be obtained if the study was also done in other major towns of provinces in the country that include Bulawayo, Mutare, Masvingo and Gweru.

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APPENDICES

APPENDIX 1

QUESTIONNAIRE

Dear sir/Madam

My name is Josephine Mapingire. I am a student enrolled on a Masters in Business Administration degree programme at the University of Zimbabwe Graduate School of Management. I am conducting a study to assess the importance of good corporate governance practices in Small and Medium Enterprises (SMEs) in fulfillment of the requirements of the programme.

I am kindly requesting your participation in this study by completing the attached questionnaire. Please note that the information you provide will be treated as confidential and as such will only be used for academic purposes. Accordingly, your personal details will not be required on the questionnaire. Your kind cooperation will be sincerely appreciated.

APPENDIX 2

QUESTIONNAIRE

The purpose of this study is to assess the importance of corporate governance in Zimbabwean SMEs.

Note: Please tick your appropriate response

No.	**SECTION A: Demographic Information** **Question**	
1.	Please indicate your gender • Male ☐ • Female ☐	
2.	Level of Management • Owner ☐ • Senior Manager ☐ • Junior Manager ☐	
3.	Age • 25 years or under ☐ • 26-35 ☐ • 36-45 ☐ • 46-55 ☐ • 56 years or older ☐	
4.	Highest Educational Qualification held • Certificate ☐ • Diploma ☐ • Degree ☐ • Masters ☐ • Doctor of Philosophy ☐ • Other (specify)………………………………	
5.	How many years experience? • 0 -1 ☐ • 1 -5 ☐ • 5 -10 ☐ • 10 and above ☐	
6.	What business sector is the company in? • Manufacturing ☐	

	• Retail ☐ • Construction ☐ • Transport ☐ • Services ☐ • Other (Specify)…………………………………	
7.	What is the size of the company in terms of the workforce? • 1-5 employees ☐ • 6-40 employees ☐ • 41-75 employees ☐ • More than 75 employees ☐	
8.	When did the company start operating? • Less than 2 years ☐ • More than 2 years but less than 5 years ☐ • More than 5 years but less than 10 years ☐ • More than 10 years ago ☐	
	SECTION B: Main Body **Corporate Governance Principles** **Board Independence**	
9.	What is the percentage of directors who do not work for the company but are from outside. • 0-25% ☐ • 26-50% ☐ • 51-75% ☐ • 75 % and above ☐	
10.	Have any of the outside directors had business dealings with the company during the past 3 years? 5.Strongly Agree | 4.Agree | 3.Uncertain | 2.Disagree | 1.Strongly Disagree	
11.	Do any of the outside directors have a relationship with the top inside (executive) directors of the company? 5.Strongly Agree | 4.Agree | 3.Uncertain | 2.Disagree | 1.Strongly Disagree	
12.	Are any of the executive directors of the company working for any of the outside directors' companies as board members?	

	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree	
	Internal controls					
13.	Conducting daily reconciliation of sales and purchases					
	5.Very satisfied	4. Satisfied	3.Averagely Satisfied	2.Dissatisfied	1.Very dissatisfied	
14.	Separation of roles and responsibilities by employees					
	5.Very satisfied	4. Satisfied	3.Averagely Satisfied	2.Dissatisfied	1.Very dissatisfied	
15.	Ensuring safety of assets such as stock, cash and equipment against theft/damage					
	5. Very satisfied	4. Satisfied	3.Averagely satisfied	2.Dissatisfied	1.Very satisfied	
16.	Training of employees in internal control systems					
	5.Very satisfied	4.Satisfied	3.Averagely satisfied	2.Dissatisfied	1.Very dissatisfied	
17.	Use of computers to facilitate daily operations					
	5.Very satisfied	4.Satisfied	3.Averagely satisfied	2.Dissatisfied	1. Very dissatisfied	
	Disclosure					
18.	Does the company prepare financial statements?					
	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree	
19.	Is a Code on Good Corporate Governance available?					

	5.Strongly Agree | 4.Agree | 3.Uncertain | 2.Disagree | 1.Strongly Disagree	
20.	Does the company have Mission statement, vision statement and a Statement of Objectives? 5.Strongly Agree | 4.Agree | 3.Uncertain | 2.Disagree | 1.Strongly Disagree	
21.	Is there an internal audit function in the business? 5.Strongly Agree | 4.Agree | 3.Uncertain | 2.Disagree | 1.Strongly Disagree	
22.	Are the business accounts audited by external auditors? 5.Strongly Agree | 4.Agree | 3.Uncertain | 2.Disagree | 1.Strongly Disagree	
	Owner-Manager Separation	
23.	Is the manager also the owner of the business? 5.Strongly Agree | 4.Agree | 3.Uncertain | 2.Disagree | 1.Strongly Disagree	
24	Is the manager related to the owner of business? 5.Strongly Agree | 4.Agree | 3.Uncertain | 2.Disagree | 1.Strongly Disagree	
25.	Does the owner overshadow the manager in the running of the business? 5.Strongly Agree | 4.Agree | 3.Uncertain | 2.Disagree | 1.Strongly Disagree	
26.	Is the manager a shareholder in the business? 5.Strongly Agree | 4.Agree | 3.Uncertain | 2.Disagree | 1.Strongly Disagree	
	SECTION C: Outcome **Business Performance measure**	

27.	The sales of the company have been increasing	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree	
28.	The profits of the company have been increasing	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree	
29.	The number of employees in the company have been increasing	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree	
30.	The business has opened up other branches/outlets elsewhere	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree	
31.	The Return on assets (ROA) has been increasing	5.Strongly Agree	4.Agree	3.Uncertain	2.Disagree	1.Strongly Disagree	

Please indicate below any issues you might want to mention which may be important to this research:

Thank you for your time

THE END