



**UNIVERSITY OF GHANA**

**EXAMINING CORPORATE GOVERNANCE PRACTICES AMONG SMEs IN GHANA:  
A CASE STUDY OF SOME SELECTED SMEs IN ACCRA**

**BY**

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**THIS DISSERTATION IS SUBMITTED TO THE UNIVERSITY OF GHANA, LEGON  
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DEGREE**

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## **DECLARATION**

I hereby declare that this submission is my own work towards the award of Master of Arts in Organizational Leadership and Governance. To the best of my knowledge it contains no materials previously published by another person or material which has been accepted for the award of any degree of the university except where acknowledgement has been made in the text.

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## **CERTIFICATION**

I hereby certify that this dissertation was supervised in accordance with procedures laid down by the University of Ghana,

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**(SUPERVISOR)**

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**DATE**

## **DEDICATION**

To my parents Mr Victor Seth Kotei Neequaye and Madam Agnes Omang and Brothers Michael, Paul and Dominic Neequaye for their constant support to me from the beginning and have taught me to persevere no matter the circumstance or resources available, above all staying connected to God.

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## **ABSTRACT**

The subject Corporate Governance has been a topical agenda among SMEs in Ghana. Nonetheless, there has been less effort in ensuring that SMEs practice good corporate governance unlike the efforts being put in large firms. As a result of this, the research seeks to identify corporate governance practices among SMEs, their challenges and the benefits they derive from it.

An interview guide was adopted to collect data from selected SMEs. The study revealed some constraints in their performance of corporate governance. Some of the challenges they faced were financial constraint, their inability to have the right professional mix on the board and management, inconsistency in the practice good governance in their operation as business and founders or entrepreneurs not giving their full attention to the businesses they've created because of their commitment in other businesses they are employed in.

In assessing the challenges, relevant recommendations were suggested for three categories of people: Policy Makers, Shareholders, Executive and Non-Executive Directors. Some of the recommendation given are: to empower NBBSI to regulate and ensure SMEs practice good governance, government policies on corporate governance should be fine-tuned to suit SMEs, government should remove superfluous legal and regulatory limitations in the establishment of SMEs, and continues training for shareholders and directors, and finally adopting alternative ways of rewarding NEDs.

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## LIST OF ACRONYMS

ACCA	-	Association of Chartered Certified Accountants
AGM	-	Annual General Meeting
CEO	-	Chief Executive Officer
CFO	-	Chief Finance Officer
CG	-	Corporate Governance
DCS	-	Dream Consult and Supplies
EC	-	European Commission
ECODA	-	European Confederation of Directors Association
EGM	-	Extraordinary General Meeting
GDP	-	Gross Domestic Product
IFC	-	International Finance Corporation
ICT	-	Information Communication Technology
NED	-	Non-Executive Director
NBSSI	-	National Board for Small Scale Industries
OECD	-	Organisation for Economic Co-operation and Development
SMEs	-	Small and Medium Enterprises
QCA	-	Quoted Companies Alliance

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

In the world of business, issues concerning Corporate Governance has been a topical agenda among Small and Medium Enterprises (SME). In Ghana, Economic Development of Small and Medium Enterprises have been aligned with how organisations put in place proper governance mechanism. Research has enlightened us that important elements that govern the health of the organizational structure and its potency to endure economic shocks rest upon the shoulders of good corporate governance practices. As such, we can say corporate governance helps to ensure economic growth by improving the output of companies and improving their access to external capital.

The term Corporate Governance came from a man called Bob Tricker from Hong Kong in 1984. He defined “Corporate Governance as the system by which companies are directed and controlled” (Tricker, 2015). “Sir Adrian Cadbury in 1992 came up to define Corporate Governance; ‘is about establishing a framework of company processes and attitudes that add value to the business, help build reputation and ensures its long-term continuity and success’”. From the above definitions, you can deduce that Corporate Governance is about the framework in which organization are directed and controlled to help build a good reputation and ensure organizational longevity and success. We are to note that Corporate Governance seeks to explain how organizations ought to be managed and directed. Corporate Governance is overseeing and ensuring those who direct and control the day-to-day operations in an organization. For a Small and Medium Enterprise (SME), Abor (2007) noted that ‘shareholders have respective roles they

play as an owner and manager (the directors and other officers)'. This is to guide us that Corporate Governance within SME sit stuck between Shareholders and the Board of Directors.

The subject of Corporate Governance has been an evolving area of management research between large and small firms. Nevertheless, a lesser amount of thoughtfulness has been geared towards SMEs. Currently, there is no study that examines the challenges and benefits that corporate governance brings to an SME. Former studies have on the subject matter concentrated on large companies (Berger et al, 1997; Friend and Lang, 1988; Wen et al, 2002; as cited by Abor, 2007). This research examines the impact analysis of Corporate Governance on Ghanaian SMEs. The paper explicitly looks at the benefits enterprises having Corporate Governance structures in place as against those that do not practice Corporate Governance in Ghana, and the challenges SMEs face in their management, and the issues that rises when it comes to enforceability of policies from Board. The subject is of immense importance in the role SMEs play in the Ghanaian economy.

There is increasing acknowledgement of the important role Corporate Governance play in building a strong and lasting SMEs into large enterprises. In Ghana, SMEs are said to play a distinguishing feature in providing about eighty-five percent of employment in the manufacturing sector (Steel and Webster, 1991; Aryeetey, 2001). SMEs are also noted for contributing seventy percent of Ghana's Gross Domestic Product (GDP) and also account for about ninety-two percent businesses operating in Ghana.

## **1.2 Statement of the Problem**

Notwithstanding the capability of SMEs to accelerated growth and job creation in Ghana, a number of bottlenecks affect their ability to realize their full potential or capabilities. Their development is hindered by a number of dynamic forces, including cooperate governance, government or state policies, managerial competence, accountability, technology, finance and lack of local and international markets. In this research, I will focus on the issues of Corporate Governance among SMEs in Ghana.

There are a number of state owned corporations that have been set to ensure the advancement of good cooperate governance among SMEs in Ghana. “These include the Ghana Audit Service, and the Security and Exchange Commission (SEC) which developed Corporate Governance Code of Best Practice to be followed by the companies’ code in Ghana” (Tsamenyi, Enninful & Onumah, 2007 as cited by Asunka 2017). Hence, “SEC guidelines on best Corporate Governance Practices is based on Organization for Economic Corporation and Development (OECD) principles”. The “Bank of Ghana (BoG) has also incorporated some Corporate Governance rules in the Banking Act, 2004 (amended in 2007) and published the BoG Code of Conduct for Primary Dealers” (ROSC, 2005). Nonetheless, these guidelines or policies sets has focused on companies on big industries and has no or little impact on SMEs.

However, there is contention that Corporate Governance practices has influence on company performance. This research tends to investigate the measure to which Corporate Governance practices has on company’s performance and output. Though there is scarce data on company performance based on effective implementation of Corporate Governance policies due to lack of adequate measures for measuring the quality of Corporate Governance, it is possible to achieve a better supervision over managers’ activities.

In time past, the lack of proper structure and policies has attributed to the failure of some state owned enterprises in Ghana. This occurrence may well cripple the effective development and growth of SMEs when proper measures are not put in place. It is of essence then that proper corporate governance structure and policies be developed to enhance their performance and longevity. “Though there are evidence of legislation and proposed principles of Corporate Governance in Ghana, they all focus on listed companies (that is companies who trade on the stock exchange and is supervised by SEC and big private companies with shareholders; none has been purposely formulated to meet the needs of SMEs in Ghana”. This research paper aims to make a strong argument for the necessity of good code of procedures or conducts on Corporate Governance for SMEs in Ghana. The study therefore examines Corporate Governance practices among some selected SMEs in the Greater Accra Region of Ghana.

### **1.3 Research Objectives**

The main objective of the study is to ascertain corporate governance practices among SMEs in Accra, Ghana, their challenges and the benefits they have when they have such structures in place as well as recommend mechanisms that can solve those challenges.

1. Examine the level of knowledge of shareholders and management of SMEs in Corporate Governance.
2. Explore the benefits of corporate governance system in SMEs.
3. Examine the challenges facing various SMEs in practicing of good Corporate Governance System.

4. Identify the measures that can be pursued to ensure successful formulation and practice of corporate governance.

#### **1.4 Research Questions**

1. What is the level of knowledge of shareholders and management of SMEs on corporate governance?
2. What are some of the benefits derived from instituting good corporate governance?
3. What are some of the challenges SMEs face in practicing corporate Governance?
4. What measures can be put in place to enhance corporate governance practices in SMEs?

#### **1.5 Significance of the study**

The central theme of the study was relevant for the following reasons: research, policy and practice. The study demonstrates the need for researchers on corporate governance to deliberate more on SMEs practicing corporate governance in Ghana and the impact such institutions are making on the society and the need for Government to pay adequate attention to the development of such organisation.

This research was also significant to policy makers as it seeks to influence the decisions that will be made in future SMEs cooperate governance policies and also, tends to assist practitioners to develop mechanisms that can be used to increase the engagement between policy makers and SMEs.

This research was also significant for practice by SMEs. It tends to point out the relevance having a corporate structure bring to the organization and explains how companies having such structures have avoided many storms or challenges and are still in existence and performing better. It's also point out that SMEs practicing corporate governance are able to access finance with ease and are well managed even in the absence of the owners or founders.

### **1.6 Scope of the Study**

The study focused on service delivery entities and the manufacturing industry in the Greater Accra Region as it was possible to gather all salient information from the main head offices where management or top executives operate from. It thus involved some of the key stakeholders in the two (2) sectors. The central theme of this study was to assess the challenges, benefits and the relevance of having Corporate Governance instituted in each industry. Also, key policy institutions and supervisory bodies that need to ensure proper governance of entities were all within the region (capital), hence was convenient undertaking an interview with them.

### **1.7 Organisation of the Study**

This study will be organised into five distinctive chapters. Chapter one, shall deal with the introduction and background of study, objective and significance of the study, statement of the problem, research questions as well as the scope and limitation of the study. The chapter two shall comprise the literature review, whereas chapter three shall present the methodology required to execute the entire research project. Chapter four shall embody the result which present the analysed data in the light of the presented research questions. Chapter five shall discuss the results in the light of the reviewed literature whereas the final chapter will conclude

and give locus that embodies the summary of findings, conclusions and relevant recommendations from the study.

## **1.8 Conclusion**

This chapter gives a background to the study and, research problem and objectives of the study. Furtherance, it looks at how important this study is to research, policy, and practice in the country.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter reviews literature that deals with some key concepts in corporate governance and aims at reconciling the study with theory and empirical literature that seeks to identify key findings made in other research work. It further highlights the conceptual framework or the theoretical position of the study aimed at reconciling the study with theory.

#### **2.1 Theoretical Review**

Bob Tricker (1984), the originator of Corporate Governance associated ‘the system in which businesses are directed and managed’ to corporate governance. Most widely used explanation of corporate governance is "about establishing a framework of company process and attitudes that add value to the business, help build reputation and ensures its long-term continuity and success." (Sir Adrian Cadbury, 1992). The Kings Report in 1994, saw Corporate Governance in three folds, that is; ‘Leadership, Sustainability and Corporate Citizenship’. This concept culminated from a set of recommendation encapsulated by the Code of best practices and Conduct for some constituents. We are to note that "Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and key stakeholders. Accordingly, Corporate governance also 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 OECD, 2004).

### **2.1.1 Corporate Governance Defined**

Many definitions have been associated with corporate governance. To understand the subject matter better, we have to explain what Corporate and Governance means. The word Corporate comes from the latin word corpus; meaning body. The adjectival meaning of corporate means united in one body, a number of individuals empowered to do business as an individual. Whereas ‘Governance’ means to rule, administration, to command, (Etymology Dictionary). The above connotation implies that; Corporate Governance can be said to be the body empowered to do business within the confines of its rules and regulations. (Researchers own definition, 2020).

The United Nations Economic and Social Commission for Asia and the Pacific explains ‘Governance’ as the process in which decisions are made and are either enforced or not implemented. Furthermore, Corporate Governance looks at the link amongst the internal governance regulations or processes of companies and external (society’s) formation of the scope of business liability (Deakin and Hughes, 1997).

Other writers like Shleifer and Vishny (1997) term Corporate Governance as the way in which investors of firms or enterprises are certain of receiving back their investment. Whereas Cochran and Warwick (1998) have explained Corporate Governance serve as an umbrella term that comprises explicit matters arising from dealings among, shareholders, boards members, management and other corporate stakeholders’.

From the above definitions given above, corporate governance deals with the processes, culture, systems, structures, frameworks and policies to regulate organisations, how they are applied or implemented, and the effects of policies on the various relationship whether external or internal.

### **2.1.2 Small and Medium Enterprises (SME) Defined**

The concept of what constitutes the definition of SMEs has been a literature issue. Many writers, have provided diverse definitions of what an SMEs is per the kind of industry. The definition of a firm by size and location differs among scholars. Some scholars have attempted to apply the capital asset; skill of labour, income level and the type of economic activity being done to define what an SME is. Some may associate the meaning of SMEs in terms of ownership and their legal status.

The Bolton Committee (1971) first articulated the meaning of a small firm as an “economic” and “statistical” (cited from Abor J. & Adjasi C.K.D., 2007). The interpretation given to the term ‘economic’ is when it meets the following three criteria:

- Its share in the market place is small;
- Its being managed by entrepreneurs in a personalized way, and has no medium of a structured management system;
- It is autonomous, and does not form a part of a big entity.

The interpretation given to what is “statistical” by the Bolton Committee follows these criteria:

- The scope of the small business and their input in GDP, employment, foreign trade, etc.;
- The magnitude to which SMEs have contributed to economic growth over time.
- Global comparison of an SME and the economic contribution or input they make.

The Bolton Committee used many terms to define a small firm per diverse segments of the economy. However, companies in the mining, manufacturing, and construction sector defined

SME's in terms of the number of employees (that is, having less than 200 employees). Whereas those in the service, wholesale, trade etc. defined SME's in terms of financial turnover (ranging between 50,000 - 200,000 British Pounds). Businesses within the road transport industry classify an SME if they own 5 or fewer vehicles. Many criticisms have arisen from the definition the Bolton Committee gave. It is claimed that the definitions mainly look on the seeming irregularities between significant characteristics based on the number of workers and that of those on managerial approach.

Weston and Copeland (1998) are of the view that the size of a firm can be distinct in different environments, per the number of workers, company's annual turnover, type of industry of enterprise, proprietorship and fixed assets value. Another researcher sees SMEs as a business with employees between 1-9 and 10-99 respectively (Van der Wijst, 1989). Jordan et al. (1998) describe SMEs as firms which has employees less than a 100 and an annual turnover of less than 15 million Euros. However, in February 1996, the European Commission defined SMEs as 'firms having less than 250 employees; an annual turnover below 40 million Euros and a total asset of 27 million Euros, positive net income and Positive shareholder resources (Mira, 2002).

The Regional Project on Enterprise Development Ghana manufacturing survey paper has classified SMEs firms as businesses with less than 100 employees (Teal, 2002). According to the National Board of Small Scale Industries (NBSSI), it does identify an enterprise as SMEs that employ less than 29 workers, with a capital investment in plant and machinery (excluding land and buildings) not exceeding the equivalent of 100,000 United States dollars (cited from Asunka, B. 2017). However, "those with between 30 and 100 employees with a turnover greater than

US\$200,000 and not more than US\$5 million equivalent are classified as medium sized firms (Hayford, 2012)". The Venture Capital Trust Fund (VCTF) Act 2004 (Act 680 section 28) defines SMEs as "an industry, project, undertaking or economic activity which employs not more than 100 persons and whose total asset base, excluding land and building, does not exceed the cedi equivalent of US\$1 million in value".

### **2.1.3 Corporate Governance for SMEs**

Corporate Governance provides an overview of what happens in an organization. One question many entrepreneurs before delving into SMEs do not ask; is the relevance of Corporate Governance in their business. In Ghana, many consider SMEs as family related businesses and also the fact that they have few employees does not see the relevance of separating ownership from management, hence "argue that corporate governance should not apply to SMEs". "SMEs however in many cases are made up of only the owner who is the sole proprietor and manager" (Hart, 1995). As noted in the definitions earlier, corporate governance deals with the processes, culture, systems, structures, frameworks and policies to regulate organisations, how they are applied or implemented, and the structures in which organizational goals are set and the methods of achieving them.

Jill and Aris (2010:14) noted that, "some of the widely used definitions of corporate governance are rather narrow in perspective". In their opinion, "Corporate Governance is the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity". This is done to promote accountability and compliance within a

firm. Corporate governance is of importance as they bring independent board directors with expertise and knowledge from different fields and approaches to enhance organizational performance and capital markets, reducing risk and adding value to one's investment, hence the need to have internal structures that will serve the purposes of effective checks and balances.

SMEs with poor administration or governance system are expected to be less profitable, have poor performance, risk financial insolvency, and owners or shareholder profitability will reduce as compared with SMEs with proper Corporate Governance structure. There is also the argument that corporate frameworks tend to aid firms with greater access to financing, lower cost of capital, improve performance and have approving treatment from all stakeholders (Classens, 2003). From this, we can identify that weak corporate governance leads to poor firm performance and developmental crisis within the nation because of their ineffectiveness.

In some parts of the world there have been efforts to propose guidelines for corporate governance for SMEs. The European Confederation of Directors Associations (ecoDa) notes, "good corporate governance for unlisted companies is about establishing a framework of company processes and attitudes that add value to the business, help build its reputation and ensure its long-term continuity and success" (ecoDa, 2010).

According to Bundaleska, Dimitrova and Nikolovska (2011) suggest "some policies and procedures that are advisable to small and medium businesses are as follows; a code of conduct and ethics, procedures for monitoring transactions with affiliated/connected entities (including relevant reports), procedures for identifying possible conflicts of interest and acting accordingly,

transparency and disclosure procedures, and whistle blowing procedures”. Furtherance, “the United Kingdom Institute of Directors has also presented direction in the form of Corporate Governance Guidance and Principles for Unlisted Companies in the UK” (IoD 2010).

In Ghana, the companies code is a major legislative reference for corporate governance aimed at industry players, as such on the 2<sup>nd</sup> of August 2019, the President His Excellency Nana Addo-Dankwa Akuffo-Addo assented into law the new Ghana Companies Act, 2019 replacing the companies, Act 179 (1963). The new Act (ACT 992) pursues enhanced corporate governance principles for businesses operating in Ghana. Under the new law, major transactions need a required resolution from shareholders especially when it comes to acquisition, this is to remove from the board of directors the authority to enter into agreements or transactions without shareholder authorisation. It therefore strengthens Shareholder democracy. The new law enhances the protection of minority shareholders by providing relief against oppression and also the introduction of qualified individuals to occupy the role Company Secretary. The code outlines specific rules for different stakeholders and strict adherence to corporate governance principles. “These include but not limited to;

- Authority and responsibilities of Shareholders and Stakeholders
- The Responsibility of the board of directors
- The role of the board Chairman
- Directors responsibility
- Auditor-appointment procedure and role
- Qualification of companies’ secretary
- Disclosure and transparency

- Equitable treatment of shareholders.”

All companies registered under the Companies Code 2019 (Act 992), SMEs or not are by default bound by these rules contained therein. Adherence to the process ensures safeguard against mismanagement.

## **2.2. Challenges of Corporate Governance among SMEs**

The issues of Corporate Governance have dominated policy agenda in Ghana and in both developed and under-developed countries but the emphasis has largely been on the bigger enterprises with little attention given to SMEs. Notwithstanding the relevance of corporate governance, the challenge for SMEs is that established frameworks may not reflect their characteristics where owners are mostly managers, business ownership may be shared among relatives or friends.

Ken Lee, a member of Association of Chartered Certified Accountant’s (ACCA) in their global forum for SMEs, identified three key blockage to the greater acceptance of good governance by SMEs: “There is a lack of people with good governance expertise. SMEs also generally have a limited budget for engaging good consultants to support them and advise on good governance. And finally, they may just lack awareness of the importance of good governance”. Ken Lee seeks to point out issues on the human resource capacity within an organisation, their level of knowledge and skills when it comes to issues of corporate governance and their willingness to either get on board or engage the services of consultants. These issues boil down to the fact that founders and managers of SMEs have little or no knowledge about how corporate governance function within an organisation, who qualifies and how appointment should be done.

Also, the ACCA Global forum for Governance for SMEs (2014) also points out that “a number of general challenges discourages improved corporate governance among SMEs and family-owned business”:

- a. difficulties in interpreting an expression of need.
- b. lack of awareness of need
- c. lack of standardisation
- d. problems with understanding the changes needed
- e. cost concerns.

The forum sort to point out that there will be the need for external advisors to advise them on appropriate solutions that an SME may need to grow but owners do not see the relevance for them, hence do not get appropriate counsel. In addition, the mode of operation is not standardized, risk measures are not put in place and founder or owner is the sole decision maker of the company, therefore instituting effective corporate governance that will bring on board qualified people to make changes to organisational procedure are quite challenging.

More so, SMEs faces the existence of the agency problem. The Business and Financial Times (2009) made it known that “the agency problem arises as a result of the relationships between shareholders and managers”. This arises when members of an enterprise have conflicts of interest within the firm, due to the separation between and control of the firm. “It is tempting to believe that corporate governance would not apply to SMEs since the agency problems are less likely to exist. In many instances, SMEs are made up of only the owner who is the sole proprietor and manager” (Hart, 1995). Ideally, SMEs have a less distinct separation of ownership and management than larger firms.

Furthermore, issues of Cost discourage SMEs to engage the services of non-executive directors as the raise concern on how to remunerate them. Shareholders and managers of SMEs reluctance of on boarding non-executive directors is as a result of tight finance as they see it as a risk on their earnings as they don't have large sales to generate funds.

### **2.2.2 Importance of Corporate Governance to SMEs**

The importance of Corporate Governance within the setup of SMEs in Ghana cannot be underestimated as it aids in reducing poverty, socio-economic development of the nation, and the global business space in order to eradicate the dishonesty displayed by international financial institutions that led to global business failures.

It is of essence to have corporate governance in place as it tends to support an enabling environment and effective regulatory framework within organisations. This aids regulatory frameworks and institutions to monitor the activities and practices of organisations and ensure proper procedures are followed. We need to work out in Ghana and ensure the adoption of codes of good business conduct, accountability and transparency through full disclosure within a National Development framework.

The ACCA governance report on SMEs (2014) reports that; “SMEs practicing corporate governance are less prone to risk of conflict between family members or other owners who are actively managing the business and those who are not”. The report stated further that “they benefit from greater resilience to fraud, theft or other financial costs due to poor internal controls”.

The Corporate Governance Development Framework (2011) states in their preamble that; “Corporate governance matters because it improves investee companies’ performance and helps

develop capital markets. Sound corporate governance reduces risk, adds value to investments, and avoids reputational risks for investors”. This is to inform us that having a good governance structure coupled with qualified individuals at the management and board level will encourage investors to have confidence in the organisation, thereby boosting their desire to invest.

We are to note effective corporate governance encompasses around relationships among a company’s management, board of directors, and key stakeholders. Corporate governance system helps in providing an effective structure through which the goals of the company are set, and the steps by which goals are attained, and monitoring performance are determined. This ensures a strong synergy among employees in working according to company’s ethical standards in achieving its vision and mission. Also the fact that one’s performance is been monitored, workers inclines to set ethical standards and put in their maximum effort to ensure the growth of their business.

More so, corporate governance ensures Accountability and ensures improved sustainability. within an organisation. The IFC framework (2015) states; that “Improved Sustainability helps address family governance issues for family-owned enterprises and ease succession to future generations”. It is relevant to note that transparency is key constituent of good governance. This is because the board has a mandate to ensure a clear and comprehensive business reporting and financial disclosures, and productive shareholder engagement.

### **2.3 Theoretical Framework**

This section discusses the different theories, and models underpinning corporate governance practice among SMEs. Although there are numerous theories on corporate governance, three theories will be discussed here, namely; the agency theory, Stewardship theory and the

stakeholder theories will be used to deliberate on the main aspects of corporate governance among SMEs which discussion ultimately leads to the hypothesis for this study.

### **2.3.1 Agency Theory**

Advocates of the agency theory debates that “corporate governance has evolved out of the need to protect those who provide external finance to the corporation from those who have control over the firm”. In their argument, “the interest of shareholders and the management of the business did not always coincide”. “This clash of interest between the managers of the firm and the owners is usually referred to as the agency problem” by Jensen and Meckling (1976).

The Agency theory-based study “pinpoints the oversight responsibility boards of directors’ and their role monitoring performance” (Zahra, 1996) cited in Zahra, Nuebaum and Naldi (2007). This helps to explain the various aspect of board composition and processes, and how they contribute to performance. Though the genesis of the theory can be traced to Berle and Means (1932), they sought to explain that the various interest of principals and agents or managers do not overlap, rather sufficient monitoring by the principal will ensure agents do not maximise their own utility or benefit. From this perspective, corporations are defined as “entities that are subordinate to the interest of the shareholder or principal” (Gedajlovic, 1993). Hence, it can be established that “agency theory implies a control and legal role; which if used appropriately by SMEs could greatly enhance their operations and eventually their value and credibility in their industry and the marketplace”.

### **2.3.2 Stewardship Theory**

The stewardship theory looks at corporate governance from the angle of the management. Advocates of this theory debates that the aspiration of managers is perform a good job, overseer of company asset, hence making managerial opportunism irrelevant or non-existent. “Management’s aim is to maximise a firm’s performance since that speaks of the success and achievement of management” (Muth and Donaldson, 1998) cited in Dziba, (2015). This theory tends to replace the lack of trust that the agency theory refers to as ethical behaviour is prioritised. This theory deduces that SMEs engaging good governance practices will boost growth and add value to businesses.

### **2.3.3 Stakeholder Theory**

The stakeholder theory further argues that corporate governance proceeds from the assumptions underlying a shareholder perspective of corporate governance. This viewpoint identifies the various groups of stakeholders as customers, suppliers, employees, the local community and investors are considered to have a stake in the business of a firm. This philosophy further admonishes that these groups should have their representatives on the board. The reason being that, “the various stakeholder groups represented on the board is essential for having effective corporate governance and could further ensure that the long-term strategic goals and objectives of the SMEs are realized” (cited in Abor and Biekpe, 2007). Hence, “this perspective also recognizes interests of stakeholders other than shareholders that need to be protected” (Maassen, 2000).

Evaluating the three (3) theories above indicates that corporate governance highly considers “the protection of interest of all stakeholders of the organization namely; the shareholders,

management members, and other stake holders (like Employees, Regulators, Suppliers, customers and the larger Society)”. Having in place a good management system would demand that relevant structures and principles are in place to ensure that all stakeholders are made happy while ensuring organization continues to grow in the foreseeable future.

## **2.4 Corporate Governance Principles**

In an established institution sets norms, values, standards or codes are put in place to govern the behaviour and activities within the organisation. Corporate governance does not entail only laws and regulations, rather it’s a blend of law and ethical conduct in an organization. Ethical hitches arise from conflicting interest of the parties involved as noted in the agency, stewardship and stakeholder theory. As such, management decisions are based on principles influenced by organizational norms, conduct and culture thus ensuring fairness to all stakeholders. One may wonder whether it’s necessary for SMEs to have sets principles to govern their affairs as it may be owned by an individual, a group of friends or family related. Yes, there is a necessity to have principles as it creates market confidence within the society, community and country it operates in and boost the integrity of the business as well.

Principles of corporate governance derives its strength from the foundational pillars of: Accountability, Transparency, Responsibility and Fairness. The principal features of effective corporate governance are: transparent disclosure (meaning firms operations should be open and accessible in terms of non-financial and financial information disclosed, companies registry, and have a standard annual report which will be published); shareholder rights defined (having minority shareholder rights formalised, well-organised shareholder meetings conducted, policy

on extraordinary transactions and related party transactions and having a clearly defined and explicit dividend policy); effective control processes (establishing internal control procedures to ensure accountability, presenting a risk management framework, compliance function established, and having an autonomous external auditor to conduct audits); good board practices (clearly defined roles and authorities, well-structured board with technical experts at hand following appropriate procedures, self-evaluation for board members and training conducted and remuneration for directors in line with best practices); and lastly board commitment to discuss corporate governance issues and champion it by ensuring maximum resources are committed to governance issues (IFC framework, 2011). The explanation given above provides an overview of how corporate governance can be structured.

Asumka, (2017) states that; “Corporate Governance can be described as the mechanisms and procedures by which control, checks and balances are imposed on the internal management and its stewardship of company resources in order to ensure transparency, accountability, efficiency and maximization of shareholder’s investments”. In Ghana, issues of corporate governance have resulted in the establishment of regulatory framework such as the Ghana’s Companies Code (1963) which has been amended to the new companies’ Act 2019, Act (992), Ghana Stock Exchange (GSE, 1990) membership, the securities Industry law (PNDCL333) and a number of corporations such as the National Board for Small Scale Industries, Ghana Audit Service and Security and Exchange Commission which its code of conduct is based on OECD principles.

As Sir Adrian Cadbury (1992) noted in his definition that Corporate Governance is “about establishing a framework of company processes and attitudes that add value to the business, help build reputation and ensures its long-term continuity and success, there is the need to identify the various segment or stakeholders that will ensure that there is proper policy design and

implementation of organisational principles”. These principles tend to solve both internal and external matters and deal with the various stakeholder relationships within the organisation.

Based on the OECD report (2015), The Kings Report (1994), ACCA Global Forum for SMEs report (2014) and the IFC framework (2015), issues pertaining to good corporate governance practices will be resolved and implemented successfully when organisations take notice of these three (3) key players;

1. Well-versed Shareholders who are knowledgeable, understand governance procedures and have ability to appoint.
2. Excellent composition of Board of Directors who are able to assess their roles, prescribe directors duties and ensure effectiveness in the overall functioning of the organisation.
3. Competent Management who will ensure effectiveness in the internal control mechanism, and implement companies strategies in order to achieve sets goals.

It will not be out of place to internal and external governance structures that will control in-house matters and monitor outward agencies of both international and national origin, regulatory agencies and industry standards. This will result in achieving appropriate accountability and responsibility to stakeholders. John Pound advocate that the key stakeholders need to work together and be involved in decision making. He insists that board members must be experts in their various field of business and hold regular meeting to review and strategize for the company. He reiterated the fact board members or directors should have extensive porting of the professional time to the business and need to have access to information on products and customers in order to give proper advice, notwithstanding the fact that they have to be remunerated for their service. “They should feel that their own personal fortunes hinge on their ability to create value through their service”. (See John Pound, HBR, 2000).

What most SMEs are missing in the governance of their businesses is well-defined responsibilities that outlines a clear expectation, procedures and the accountability of all department, board and sub-committees, and appropriate monitoring of their work. Hence the need to synchronize the activities of the three (3) key players in corporate governance to ensure organizations goals are achieved and its longevity sustained. Though the principles and framework of corporate governance were developed with larger corporations in mind mainly because there is clear distinction between ownership and management of the firm, these guidelines can be incorporated among SMEs. The relationships between the key players (shareholders, board members and management) according to the OECD principles will ensure objectives are attained and monitoring performance are determined.

Furtherance in this research relies on the key players of corporate governance practice among SMEs to analyse the extent of involvement.

#### **2.4.1 Shareholders**

Shareholders can be said to be the owners of the company and they tend to provide financial backing for the establishment of industry or business and in return for probable dividends over the lifetime of the company. “Though they do not manage the day to day business of the company, however decisions in relation to the company’s goal and overall performance often require the approval of shareholders”. We need to understand the fact that “good corporate governance practices involve active participation of shareholders in the direct and indirect control of the company through the board of directors and arrangement of effective checks and balance among shareholders, the board and management” (Crowther and Jatana, 2004). This is because, Shareowners/holders have the sole right to appoint and dismiss board member, have

right to information and partake in decision making. For Shareholders to make decisions, it can be made through resolution or at general meetings, where shareholders discuss the company's performance and vote on relevant resolutions. Generally, "there are two types of general meetings, annual (AGM), which are held once a year and extraordinary (EGM), which take place when required. When a shareholder is unable to attend a general meeting it is possible for them to appoint a proxy in their place".

There is a debate whether shareholders should be controlled or not, but a study by Chen et al (2011) concluded that it is difficult to deal with controlling shareholders. As such structures or policies are designed to resolve conflicts between shareholders and management but not conflicts between controlling shareholders and minority shareholders. Boards are typically not independent to controlling shareholders.

Lastly, "shareholder ownership is a phenomenon that allows for fair corporate decision making and a sense of responsibility and shared risk taking". "The point here is that without a body of investors who would be willing to invest in a company, the promoters might not be able to raise the capital that is needed for the firm. Further, the risk is spread out over more numbers rather than the promoters having to shoulder the entire burden. In these ways, the shareholder ownership has evolved to the point where it has become a prerequisite for good corporate governance" (Prachi, 2015). We need to understand that, corporate governance can contribute to SMEs development in Ghana by instilling better management system, internal auditing and greater opportunities for growth.

### **2.4.2 Board of Directors**

Board of Directors are appointed by Shareholders, as such they are their stewards and they oversee the day-to-day activities of management members within an SME. The IFC Corporate Governance Methodology examines that for a Board to be effective, there is the need to assess role of the board, composition, have a structured committee, laid down procedures, stated director duties, and overall functioning. ACCA global forum for SMEs (2014) states that “SMEs with a board have access to a broader range of skills, experience and personal characteristics. It can also help the SME tap into a wider network of contacts. As ecoDa has noted when setting out its corporate governance principles for unlisted companies: ‘A key step in the development of unlisted company governance is the decision to invite external directors onto the board. Its effect on boardroom behaviour and culture should not be underestimated’ (ecoDa 2010)”. According to “Ghana companies Act 2019 (Act 992) stipulates the conduct and duties of Directors and how they should be formulated”. There are two kind of board members, the Non-Executive Director and the Executive Director. The Executive Director is involved in the daily activities of the business where as the Non-Executive Director is not involved but attends board meetings as when it is called.

#### **Board Composition**

It is intriguing to find out that though there has been research on board composition, no clear conclusion has been reached on whether board members should be an employee of or affiliated with the firm. Research has established that Executive Directors of an entity or enterprise are involved and familiar with the company’s daily activities, as such they are able to evaluate the top management actions and provide proper guidance in order to achieve set goals. On the other

hand, “non-executive directors may act as “professional referees” to ensure that competition among insiders stimulates actions consistent with shareholder value maximization” (Fama, 1980). Having understood how directors are involved in the operation of business, non-executive directors are more independent than executive directors. Also, having non independent executive directors on a company’s board gives indication to the business environment that the company is being governed efficiently, hence investors consider such firms as more credible. As a result, accessing credit is made easier as the company can raise long term funds through debt financing.

Accordingly, we identify the important role boards play in an SME, we shouldn’t have board just on the organizational structure or on paper, rather relevant, existing and participating board members. “We need to encourage SMEs to have more non-executive directors on the board as they will not be tied to the day-to-day activities of the company and as a result they are likely to think more freely regarding the strategic alternatives open to the SME” (Forbes and Milliken, 1999). This form of board composition ensures that the board is viewed as a strategic and solution platform and not viewed as an extension of managerial duties by executive directors. Also, Brickley et al (1994) showed that, “the market reward firms for appointing non-executive directors as it is perceived favourably by the market and financial institutions than SMEs with more executive directors”.

### **Board Size**

In Ghana and the global world of business, SMEs by their nature, mode of operation and size tend to have smaller board though many have a view that larger boards are better for corporate performance because of the range of skill they bring on board to help make strategic decisions

and defuse the manipulation of any Chief Executive Officer (CEO). Jensen (1993), Lipton and Lorsch (1992) cited in Abor and Biekpe, (2007) argue that “large boards are less effective and are easier for the CEO to control. When a board gets too big, it becomes difficult to co-ordinate and often creates problems”. “Smaller boards also reduce the possibility of free riding by, and increase the accountability of individual directors. Large board size which influences firm performance negatively is predominantly in businesses of larger sizes” (see Mintzberg, 1983; Baysinger and Butler, 1985; Kosnik, 1990).

Although there are differing assertions on what is considered to be the ideal size of an SME board, SMEs needs to develop and transit from individual or owner manager to a wider board. Instituting a team approach permits clearer development and definition of the choices facing the business. “Having team development through a broaden board has been debated to be an important step in improved corporate governance in SMEs” (Cadbury, 2000). This is essential in improving a firm’s performance especially where there are more non-executive directors. What SMEs owner/manager should note is that, the addition of a board greatly affects the growth and development of the firm.

### **Board and staff skill levels**

As noted earlier in the literature, the skill of board members is relevant in shaping the organisation and making strategic decisions. Skill development shouldn’t just be resided or rested among board members, rather it should transcend and be made a priority at the management level since they are involved in the daily activities of the firm. Lybaert (1998) cited in Abor and Biekpe, (2007) argues that, “better performance is due to the proven positive relation of higher levels of education among entrepreneurs and their willingness to use external

information, develop networks, make use of consultants or develop more detailed accounting and monitoring systems”. Nonetheless, there are skill development gaps among SME boards and management because appointment is either base on family related, friendship or association, SMEs in the twenty first century (21<sup>st</sup> century) must grow beyond these links and comprehend that to grow their industry or business they need to position their businesses in a professional manner and resolve the skill gaps. There may be other views as to whether it is of relevance to have highly skilled professionals among SMEs, it therefore merits that further research be undertaken in this area of study to guide managerial decision making.

### **Board Committees**

The Cadbury Report (1992) places a great emphasis on having key board committees. Having created a board helps discuss governance issues and as such create a corporate governance committee. This committee helps to create policies and procedures of the organisation, code of ethics for staff to follow and ensures other sub committees such as; Risk management committee, internal and external audit committee, finance, legal committee and other relevant committees to aid in the operation of the enterprise. Putting this into context, SMEs argue that the it is costly in creating board committees. We need to note that the real issue of having a board is not about the cost, “rather about the size, independence and expertise of the board members. A board whose size and composition is devoid of experts cannot have a committee of experts”. (Dzigba, 2015).

## **CEO Duality**

Many research has revealed two types of board structure in which the Chief Executive Officer (CEO) perform the role of chairman of the board as well as the CEO of the company and the system where the positions of the CEO and chairman are occupied by two individuals. “This situation normally encounters issues of interest and enhances agency problems” (Brickley et al., 1997). There is other contrasting viewpoint among researchers regarding CEO of the firm concurrently acting as chairman of the board. Despite the contrast, there is high preference for the system where the CEO's role is separated from that of the board chairman to ensure independency. According to Sanda et al. (2003) “found a positive relationship between firm performance and the separation of the functions of the CEO and Chairman. Rechner and Dalton (1991), cited from Abor and Biekpe, (2007) however reported that companies with CEO duality have stronger financial performance relative to other companies”.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter explains the research methodology (that is method) used and outlines the specific procedures used to carry out the research work for the purposes of the reliability and validity and the entire work. It highlights the study area, research design, and sample size, sampling technique and procedure, instrument of data collection, the method of data collection, data analysis, data handling and ethical consideration.

#### **3.1 Research Paradigm**

One of the components of research is getting enough information about the research problem the what, how, when and where answers, which is why descriptive research is an important type of research. This research uses interpretive model where results gotten from interview can be influenced by the opinions of the researcher. The purpose of using the interpretivist research method was to aid me understand the subject matter in order to describe and interpret the meaning of the data gotten from the research.

#### **3.2 Research Design**

The study adopted a qualitative research design. “Qualitative research design is a design used to find out how people feel or what they think about a particular subject or institution” (Kothari, 2004). This was carried out by adopting a descriptive survey design to properly describe the research problem. Descriptive research is more explanatory than exploratory or experimental and aims at accurately describing a research problem. Hence, the descriptive survey study was used

to find out and describe the challenges and benefits of corporate governance practice among SMEs in Ghana. This was done through the use of procedures that described, clarified and interpreted existing variables that formed a phenomenon.

### **3.3 Type and Source of Data**

The type of data used for this research was a mix of primary and secondary data. This type of data used was relevant in gathering the evidence and make sense out of it since is more about qualities. The use of interviews involving open-ended questions with participants were used.

The more reason why this type of data was used was to source out information about how people feel, know, and understand the subject matter.

### **3.4 Targeted Population**

A target population was a specific pool of cases a researcher wants to study. In this particular research, the target population was some selected Small and Medium Enterprises (SMEs) and the National Board for Small Scale Industries (NBSSI) in Ghana. Though SMEs are scattered across the country, this research concentrates on enterprises in the Greater Accra Region with the main reason being that it is the highly populous and has the highest concentration of SMEs.

The choice of the target population was being influenced by the fact that most implementation partners are operating in Accra which is the seat of governance.

### **3.5 Sampling**

Three (3) SMEs collaborating with the National Board for Small Scale Industries were chosen for the purposes of this study. A senior management officer from each SME was interviewed.

Purposive Selection was used to select CeeJay Multimedia, Esoko Ghana, and Dream Consult and Supplies as a result of their continuous performance and being part of the most admirable SMEs in Ghana. The idea is to ensure that the needed information is provided for the study.

**Table 3.1 Sample of Respondents**

<b>Institutions</b>	<b>Number of people interviewed</b>
National Board for Small Scale Industries	2
CeeJay Multimedia Ltd.	2
Esoko Ghana	1
Dream Consult and Supplies	1
<b>Total</b>	<b>6</b>

**Table 3.2 Data on Respondents**

<b>NAME</b>	<b>TYPE OF INDUSTRY</b>	<b>JOB FUNCTION OF RESPONDENTS</b>	<b>NO. OF YEARS IN OPERATION</b>
1. NBSSI	State Institution	Head of Monitoring and Evaluation	35 year <sup>2</sup>
2. Esoko Ghana	Information Communication Technology	Head of Marketing	12 years
3. Dream Consult and Supplies	Manufacturing	CEO	5 years
4. CeeJay Multimedia	Media	Head of Operations	21

### **3.6.1 Methods of Sampling**

The study made use of both primary and secondary data in an effort to meet the objectives of the study.

#### **3.6.1.1 Primary data**

Directly, the primary data was obtained from first-hand experience, organized and analysed to get the interpretation of it. administering interview guides. Both qualitative and quantitative data were obtained using various data collection techniques as explained below:

#### **3.6.1.2 Interviews**

An interview guide was employed to the respective SMEs and the National Board for Small Scale Industries (CeeJay Multimedia Ltd, Roverman Productions and Dream Consult and Supplies). Data was collected through a one-on-one interview via face interaction and through phone call interview. The researcher posed questions to respondents and filled in the interview guide for them. The researcher also asked open ended questions in order to get more information and the thoughts or ideas of respondents towards corporate governance.

#### **3.6.1.3 Secondary data**

The secondary data were obtained from articles, journals, public documents, publications, YouTube and the internet.

### **3.7 Data Collection Instrument**

The Instruments for collection of data was through a structured Interview guide to attain the necessary information for this research. An interview guide was granted as it aided in getting

detailed insights from the respondents. One-on-one interview was conducted as well as phone calls.

### **3.8 Data Analysis**

Data collected was analysed against the research objectives. The analysis of the results was done by using thematic analysis by comparing the various responses from the interview conducted to identify common themes in the literature.

### **3.9 Ethical Consideration**

In as much as this research sought to elicit information from respondents, as such no respondent was coerced into participating but rather voluntarily. The privacy, anonymity and confidentiality of respondents will be maintained and assured as well as secured and protected. All sources of information used in the study were duly acknowledged in order to avoid plagiarism. A question from the interview guide was given to respondents ahead of time before interviewing them.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND DISCUSSION OF FINDINGS**

#### **4.0 Introduction**

This chapter contains the analysis and presentation of data from the interview conducted. The results have been organised into varied headings with the aim of clearly drawing a distinction between the relationships that exists between variables under consideration of each of these themes. The themes under which they were analysed were: corporate governance system among SMEs, benefits of corporate governance, challenges of corporate governance and measures to improve corporate governance system in SMEs.

#### **4.1 Demographic Data**

This section included the job function of the officer interviewed, the number of working years' experience, gender and level of education. From the results, it was observed that, all the people interviewed have an average of 8 years working experience and they all occupy senior managerial role. This gives an indication that, they all well resourceful in the subject matter of corporate governance. It was also found out that the minimum working experience was a University degree holder with 1 person having a masters. The youngest person contacted was 28years and the oldest being 42 years of age. Only 1 female was contacted out of the 6 participant.

**Table 4.1 Demographic Characteristics of Respondents**

<b>Demographics</b>	<b>Response</b>	<b>Frequency (N=6)</b>
<b>Gender</b>	Male	5
	Female	1
<b>Age</b>	20-29years	2
	30-39years	3
	40-49years	1
<b>Highest Educational Level</b>	Diploma/HND	0
	Bachelor Degree	5
	Post-Graduate Degree	1
<b>Working Experience</b>	5-10 years	3
	10-20 years	3

#### **4.2 Corporate Governance System in SMEs**

The key objective of the study is to examine the level of knowledge of shareholders and management of SMEs in Corporate Governance and how they practice it. A thorough knowledge and understanding of an organizations Corporate Governance system is a vital factor in planning, strategizing and policy making. According to the Principles of Corporate Governance by OECD

in 2015, “Corporate Governance provides the systems through which a company’s objectives are set, and realised and how monitoring performance are determined”.

From the perspective of NBSSI;

“Ninety-five percent (95%) of the SMEs they work with and provide business development consultancy and skill enhancement with have no proper organizational structure. They said most enterprises are owned by individuals who steer the affairs of their organization and one or two people assisting in the management of the business”.

In addition, the respondent from Esoko Ghana and Dream Consult and Supplies (DCS) assented to the fact that, their organization believe in corporate governance system. They responded that:

As such, their organizational structure is spearheaded by Board of Directors (BoD), Chief Executive Officer (CEO), Departmental Directors, Line Managers and Staff members. They believe that though they are not a large entity, it is important to have these structures in place to ensure sustainable growth and existence when the founders and Shareholders are no more [Esoko and DCS].

It is worth noting that for Dream Consultant and Supplies, their shareholders are members of the board. Apart from CeeJay Multimedia who does not have a board or their corporate governance does not have a board, the rest do have board of directors who serve as an advisory board to the organization.

#### **4.2.1 Shareholders knowledge and appreciation of corporate governance**

Shareholders knowledge on corporate governance is important as they become key stakeholder in ensuring the implementation of corporate governance. The respondents made it known that

shareholders and management had appreciable knowledge of corporate governance and more training ought to be done to boost their expertise and consistency.

#### **4.2.2 Key Players of Corporate Governance**

It is imperative that when designing a Corporate Governance system within an SME, you include key stakeholders. According to Spencer (2020), “key stakeholders include shareholders, directors, employees, creditors, suppliers, and other interested parties”. Spencer T. went on further to state that “Corporate Governance involves the way a corporation’s stakeholders interrelate with each other to make corporate decisions”.

Conversely, not all stakeholders have an opportunity to participate in corporate governance. For the purpose of this research, an enterprise or organizations where Corporate Governance is practiced are grouped into three key groups. These are: shareholders, executive directors or senior management, and officers. In practice, these key players have the most power in corporate governance (Mark and Spencer, 2020).

The respondents viewed key stakeholders in Corporate Governance within their organisation as Board of Directors and Management only.

They did not ascertain the fact that, officers or junior staff are part of the key players of corporate governance within an organisation. We are to note that organisation can achieve their vision and goals when they value the input of officers and are seen as key players in corporate governance. The more reason being that, the officers implement policies that emanate from the board.

#### **Board of Directors**

In this section, will seek to expatiate on the role, structure and composition and diversity of the board of directors to aid us examine the extent of corporate governance participation in SMEs.

The board of directors is highest body of a company that is responsible for managing the firm and its operation. It plays vital role in strategic decisions regarding operational and the financial mix of an enterprise.

### **Board Composition and Diversity**

Respondents were asked how they constitute their board and the reasons behind them. From the respondent:

They have a board and are predominantly men. It is noteworthy to find out from the respondents that; most of the shareholders are represented on the board and some also play key role in the management of the organization. Generally, 4 out of 6 memberships are independent non-executive directors with diverse expertise and 2 are executive directors. For Esoko Ghana, their board was composed out of Investors and key members of management (CEO and CFO). Their board met every quarter to evaluate the activities of the company and provide advice or strategies to advance better. At DCS, their board meet twice a year to perform advisory role.

It is important to have board diversity in order to have added viewpoints, this help in overcoming “group think” mentality that can occur when like-minded people discuss issues and make decisions. One major issue that popped up was gender inequality on the board of SMEs. It was found out from the respondents that, only 30% of board members are female. Diversity in the board and gender is extremely important to help meet the company’s evolving needs. From our respondents, family members were not part of the board of directors.

## **Board Committees**

One may wonder why boards do have committees. It is important to have them to deal with the pressures that emanate from regulatory institutions and shareholders. “Board committees provide a platform for boards to deal with specific issues that require specialized areas of expertise” (Price, J. N., 2019). The concept behind having board committees is to tap specialized skills and knowledge from non-executive directors on the board to equip by educating the full board on particular areas of concern. “Committees allow boards to divide the work of the board into manageable sections” (Price, 2019).

In analysing the responses received from the respondents, it was observed that the type of industry you operate will define the various committees you should have though there are similarities. Will first point out the similarities and then add the differences per industry. Under listed are the similarities the respondents have:

1. Finance Committee
2. Monitoring and Evaluation Committee
3. Compliance and Procurement Committee

For Esoko Ghana, because they are primarily into the Information Technology (IT) space and they provide the services for Data collection and proofing and service delivery, they these additional committees as part of the board;

1. IT risk and innovation committee

For Dream Consult and Supplies, they are into manufacturing in the agro processing industry. As such they also have on board expert that seeks to aid them market their product across Ghana and specially to export most of them. For that reason, they also have an added committee, that is;

1. Marketing and Trade committee

### **Functions of the Board**

Corporate Governance Framework within an SMEs should have a guideline for Board functionalities. According to the G20/OECD principles on corporate governance chapter 6 provide eight (8) functions or responsibilities of the board. They state that: “The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders”. Generally, we can state that boards for SMEs are to provide the roles of control and consultation or advisory role.

The research support different roles that the participants spoke and wrote on. Participant spoke positively about the impact of knowledge and standards the board set for directors or management. Some of the functions the board performed where:

Though the members of the board serve as advisory board, their main function is to help set strategy and structure for the organization. They do this by ensuring organizational structure is set to meet the objectives of the establishment of the organization, hence they determine strategic options or policies that governs the organization and ensure management successfully implement those policies.

Secondly, the board has an oversight responsibility over management, hence they perform the role of reviewing and monitoring the governance system and activities of management to identify whether they are;

1. Complying with the laws within the industry they operate in and country.
2. Complying with the system of internal controls in finance, operations and procurement within the organization.

Thirdly, serve the interest of shareholders and serve on board committees. The respondent made it known that, most of the shareholders serve on boards of SMEs. They are to ensure that their interest and reason for set up the enterprise is established. They also said, those who are not skilled do not serve on committees but rather appoint independent people to serve as consultant to the committees were need be.

According to the OECD principles, “an area of increasing importance for boards and which is closely related to corporate strategy is oversight of the company’s risk management for which SMEs should not take for granted”.

#### **4.2.3 Key Difference between SMEs with Corporate Governance and those without**

It was relevant to note that respondents identified key differences in enterprises that have a good governance system or are well structured from other enterprises that are not well structured. Since most them have been in the SME sector over a decade, they were able to detect some differences within organizations. Some of these responses are as follows:

“Aside the fact that you can identify the absence of the Board, one clear distinction is the powers of authorization. Who authorizes what? Who has the right to make a decision? In an organization where corporate governance is effective, there are levels of authorization and they are clearly spelt out for everyone to know his or her limit”. (DCS)

There is proper succession planning in organization where corporate governance is taking place. Unlike organizations who don't have good governance system, they identified that well-structured organizations have clearly spelt out how managers and board members are replaced. As such due diligence is done before such decision are made and not out of the blue.

The CEO of DCS did identify that, “there are internal and external control measures put in place to ensure appropriate accountability and responsibility to shareholders”.

Apart from CeeJay Multimedia, all respondents said “strategic decision and plans come from the board, whereas the CEO of Ceejay Multimedia makes his own decision without reporting to anyone”.

#### **4.3 Benefits of Corporate Governance**

Generally, in Ghana most SMEs do not practice corporate governance but the few that do practice testify of the benefits they derive from it. One of the paramount benefits corporate governance system gives them is the enforcement of standards on management especially to CEOs who were very much used to doing things their own way especially when they were sole proprietors or have the maximum shares in the business. The participant shared their views as follow:

#### **4.3.1 Access to credits**

From the interview conducted, it was realised that in their practice of good governance system has helped to have a goodwill that aids them in accessing external capital injection in their business. One of the respondents said:

“Because they are practicing corporate governance and have competent people who are on the board, they are able to access credit from the banks without struggle”. The reason being that, the financial institution tends to trust and have confidence in SMEs because of the worth and integrity levels of some of the board members, hence they can rely on them and assist them with the financially. [DCS]

#### **4.3.2 Enriched Compliance**

Shareholders are motivated to comply with the procedures in place. The reason being a good system ensures the right things are done or complied with.

Certainly it has introduced discipline at all levels in the organization. Employees are careful in what they do, because they know they will be held accountable for their action, hence, are very objective in the actions they take. [Esoko]

The interest of shareholders is brought to the board for further deliberation during their quarterly board meetings.

#### **4.4.3 Improved communication and decision making**

It is important to note that, key governance players seek to develop better channels of communication and decision making process with shareholders and stakeholders. From the perspective of Esoko Ghana, before making any strategic decision or plan;

“The idea is first discussed with Senior Leadership Team (CEO and Department Directors). Based upon the relevant information or facts, it is then submitted to the Board upon which it is reviewed before it is approved”.

Other respondents concurred to the fact that, strategic decision and plans developed from the board though it is not all the time the idea originates from them. An idea can come from a junior staff or anybody, management sit and discuss about it to identify its workability before taking it to the board for approval and implementation.

More so, “practicing corporate governance has helped the company in making strategic and important decisions”. For DCS, when an issue arises or there is an emergency and a decision ought to be made, because of the exposure and experience the board members have, they are able to manoeuvre their way around it. Indeed, having skilled professionals as part of the board has helped in ensuring that ideas are turned into innovation that aids in branding their product and cushioning the company upwards.

#### **4.4.4 Enhanced Policies**

It is however noteworthy to find out that, those enterprises having corporate governance have been able to come out with some strategic policies. Notable among them is the Code of Conduct that stipulates the do's and don'ts within an organization. Secondly, they have been able to come out with employee handbook and policies governing each department and roles within an organization.

For the CEO of DCS, he states that;

“Corporate Governance has helped them have a procurement policy to guide them when it comes to purchases and how approvals should be done. Though as the CEO, he has a limit he can approve”.

#### **4.4.5 Improved Checks and balance and Risk Management**

“Corporate Governance can be described as the mechanisms and procedures by which control, checks and balances are imposed on the internal management and its stewardship of company resources in order to ensure transparency, accountability, efficiency and maximization of shareholders’ investments” (Jill and Aris, 2010 as cited by Asunka, 2017). According to the principles of corporate governance by OECD, the primary role of the principles is to provide shareholders, board members and executive management as well as financial intermediaries and service providers with the right incentives to perform their roles within a framework of checks and balances. This will help evaluate and improve the regulatory and institutional framework for corporate governance within an SME.

The respondent analysed the fact that corporate governance practice has helped solve issues of accountability, chain of command and performance management upon instituting some measures. An official from Esoko Ghana stated:

“Currently, issues on checks and balance are handled by the board. As such they meet quarterly to have board meetings to oversee the management activities. They have instituted a monitoring and evaluation committee as well to ensure effectiveness in the implementation of policies and audit management activities. Also, there are Monthly Management meetings where reports from the various department are brought to the desk of the CEO for discussion with departmental directors. As such, they have no issues when it comes to corporate governance”.

In addition, DCS as an organization has taken additional steps to what Esoko Ghana does. For them, “the board has Instituted proper communication level and levels of authorisation”. This they do by creating effective channels of communication, thus has helped them to ensure that necessary information whether verbal or written are sent to the right offices and necessary action or approvals are made.

As noted by Professor Andrew Chambers, one aspect of this is oversight of the scale of management’s drawings, which can threaten the survival of an SME: “There is also an enhanced risk that poor quality of management information makes it harder to determine whether the SME is drifting towards insolvency than in a large company with specialist management accountants serving the board well...a properly functioning board can be instrumental in ensuring that the SME’s management information is of sufficient quality to be a suitable basis for exercising effective oversight” (ACCA, 2014).

#### **4.5 Challenges of Corporate Governance among SMEs**

The relevance of corporate governance among SMEs cannot be understated and shouldn’t be undermined. Nonetheless, there are many challenges SMEs face in their aspiration to practice good governance system within their organization. In analysing the responses received from the participants, some key challenges were observed:

#### **4.5.1 Financial Challenges**

One major concern that SMEs complain about is the financial pressure they go through. How to compensate Board members and ensuring due diligence is followed tends to be costly. The respondents gave many reasons as follows:

“Chief among the challenges we face is Financial Constraint in the practice of corporate governance. Shareholders are diffident in introducing independent non-executive directors because of worries of remunerating them after each board meeting and committee sitting”. The respondent for DCS also made it known that it cost to do the right thing, so many organizations tend not to practice corporate governance, they have them on paper but not in practice.

According to ACCA governance report on SMEs in 2015, they noted that “The reluctance of SME management and shareholders to pay non-executive director fees is understandable as finance is usually tight. Payment of these fees out of retained earnings is risky and large sales need to be made in order to generate the funds to pay non-executive director fees”.

Another respondent also noted that;

“You know what is good, what the process is but have not all the financial resources hence unable to recruit additional and right personnel to perform a task, rather you are compelled to have one (1) person performing 2 or more task”. He further went on to state that “its costly to have a management structure and a high level of professional qualification relevant to Industry when it comes to corporate governance” (CeeJay).

#### **4.5.2 Recruiting the Right Professional Mix**

Most of the respondents brought up the issue of recruiting the right skilled labour to occupy managerial role. Employing graduates or chartered professionals with the right skill and knowledge seems to be expensive, as such tend to employ less experienced individuals in order to reduce their expenses and increase their profit margin. The respondents made these comments:

The next challenge they face as an SME was getting the right professional on the board and management (human resource). “Because of our financial resource restrain, we are unable to recruit the right professionals to be part of organisation. As such, the organization lacks certain skill and knowledge”. For instance, we are unable to recruit a chartered accountant to manage our finance for us and right the needed report for us. (DCS).

In addition, what may be appropriate for a large company may be less relevant or appropriate for an SME. There is in fact a lack of standardisation, transparency and disclosures in some of the components of good corporate governance for SMEs.

#### **4.5.3 Matters emanating from the Board**

Research has shown that in general, “creating a board and bringing in external directors can be beneficial for family businesses and SMEs in general, it is important to consider what particular skills and experience the individuals contribute” (ACCA, 2014). It is important that board members understand their role and function within an organization in order to build a cordial relationship with management. SMEs are also to pick the right personnel to be part of the board in order to give the necessary advice or share knowledge that will aid in the advancement of the company.

The various respondents indicated that, management has no issues with the board even though they are SMEs. For Esoko Ghana, the respondent added that:

“the board of directors had an oversight responsibility over for management”. As such, they keep and maintain effective relationship with management members.

Another respondent from DCS also noted that:

“management has a cordial relationship with the board. The Board serve as an advisory body who give proper consultations and support the activities of management”.

#### **4.5.4 Difficulty in Practicing Good Corporate Governance**

The practice of good governance system is important in restructuring and having continuous improvement within an SME. Nonetheless, the systems involved for a small enterprise tends to be challenge for them. The respondents made the following observations:

The CEO of DCL reiterated the fact that, one major issues that SMEs face is the issue of good management system. “Due to the cost involved, most founders of SMEs register as sole proprietorship and perform managerial activities in an informal manner and overlook the importance of setting up proper managerial systems”. For CeeJay, they have trust issues with employees, and that inhibit them to inculcate proper managerial system.

“Also there are issues of interference from shareholders in the operation of business. This ought not to happen, but sometimes because the shareholder may be the sole investor in the organization, may want an action towards a project fast-tracked without going through due process. This may cause a rift between management and shareholders” (CeeJay).

Some of the issues are also generated internally and some externally due to the pressures or forces from outside environment. We are to note that, the role of NBSSI is not to regulate SMEs rather serve as an advisory body or consultancy on business development for SMEs. As such they do not regulate the activities of these enterprises or provide a policy to compel all SMEs to adhere

#### **4.5.5 Absence of founders**

In regards to the absence of founders or entrepreneurs who set up an enterprise, it was observed that their absence in the early stages of an organization tends to stall the rapid growth of an SME. This is due to the fact they are unable to give full attention to the business because they work in other institutions and sees their business as a part time, hence invest little resource, energy and time. One of the respondents commented that:

“Corporate governance seems not to be working well for SMEs because most founders and owners of these enterprises are not fully involved n the activities of the company. The reason being that they work on part time basis or are fully employed in other companies, as such are not able to dedicate enough time and energies to ensure the right things are done” (DCS)

#### **4.6 Measures to Improve Corporate Governance practices among SMEs**

Respondents made the following recommendations:

- Professionals should offer assistance to serve on the board and not prioritise to receiving of allowances.

- CEOs or founders of SMEs should dedicate their time and fully work in the organization.
- NBSSI should be given the mandate by government to regularise the activities of corporate governance among SMEs.
- A properly functioning board can help ensure that performance and management conduct are both monitored properly in SMEs.

## **CHAPTER FIVE**

### **DISCUSSION**

#### **SUMMARY, FINDINGS, LIMITATIONS, CONCLUSION AND RECOMMENDATION**

##### **5.0 Introduction**

This chapter encompasses an overview of the entire study looking specifically at summary, findings which are presented based on the specific issues analysed in chapter four, the limitations arising from the research work and recommendations. This chapter enables the reader to make meaningful connotations and logical conclusions of the study and recommendations.

##### **5.1 Summary of the Study**

The study was on the topic, Corporate Governance Among SMEs: Challenges and Benefit. The purpose of this research was to identify challenges and benefits SMEs derive in practicing good corporate governance systems. The objectives of the study were to explore the level of understanding SME management have in corporate governance and to identify the command channel in directing organizational objectives. Lastly, was to identify challenges and benefits SMEs in Ghana face in their practice of good corporate governance and to assess measures that can be pursued to solve those challenges. Both relevant and theoretical and empirical literature was reviewed giving full credence to existing literature on the subject matter.

The population for the study was the NBSSI, Esoko Ghana, Dream Consult and Supplies, and CeeJay Multimedia. An interview guide was adopted as an instrument for data collection from a purposeful sampling size of four. The choice of sample size was made possible by convenience and purposive sampling.

## **5.2 Summary of Findings**

### **5.2.1 Level of knowledge about corporate governance**

The study revealed among other things that, shareholders and management who have incorporated governance systems in their operation have appreciative knowledge of what corporate governance is about. All the shareholders consented to the fact that, they understood what corporate governance is about and the cost involved in ensuring its enforceability within their organisation. They also acceded to the point that, though they understood what corporate governance is and the demand, it is challenging for them to practice everything that large enterprises do.

### **5.2.2 Irregular Board Committee meetings**

Moreover, board meetings are held every quarter as expected. Per the interviews conducted, SMEs do not make good use of board committees were skilled professionals who are members of the board share expertise on some technical issues. They expect them to bring their expertise on board during board meetings, discuss every detail, evaluate and bring suggestion during board meetings. As such, such professional are not able to make meaningful impact as they need time to analyse and give proper recommendation. It was found out that, though they have committees on paper, they do not meet frequently because of the remuneration involved.

### **5.2.3 Insufficient Professionals**

According to the amended company's Act 2019, companies are required to hire a company secretary qualified to execute the duties of a secretary. Respondent from the interviews noted

that they do not have such qualified personnel on the board though they have people acting in that stead. Also, it was worth noting that SMEs are unable to recruit certain skilled professionals in their enterprises because of the demands they make and remuneration issues, as such they recruit less skilled personnel to work with.

#### **5.2.4 Lack of resources**

Aside the very fact that there are issues with recruiting the right mix of human resources, their major concern is financial resources. The study revealed that, because they do not have enough capital, they are sometimes reluctant in following the right procedures in executing their projects. It was also revealed that most SMEs have shareholders and board members only on paper and not in practice because of the financial burden on the SME and also due the fact its mostly owned by individual. The National Board for Small Scale Industries noted that, about ninety-five percent of the SMEs they work with or provide business consultancies do not practice corporate governance.

#### **5.2.5 Source of Financing SMEs business**

According to the respondents interviewed, SMEs practicing good corporate governance and with the right professional on the board, have some goodwill and are able to access credit from any financial institution. This implies that, if business financing is left in the hands of businesspersons or shareholders own resources as against the background of low savings culture in the country, then SME growth will be greatly affected. This pin-points the relevance of good corporate governance to maximise the financial resources and expansion of SME businesses.

### **5.2.6 Upshot of Foreign Substitute Goods on SME's**

For SMEs in the manufacturing industry like DCS (Agro processing), it was discovered that various imported substitute goods are imported into the country, yet government policies do not protect indigenous companies and ensure market equality. It was also discovered that lack of access to appropriate technology as well as market readiness and development prevents local SME's from competing with its foreign enterprises.

### **5.3 Limitation**

The limitations of the research comprise of the existence of a gap flanked by the real and targeted samples, inaccessible data, existence of multi collinearity between individual and firm questionable information. Was so surprising that many SMEs contacted were not willing to provide answers or give an ear to the researcher on objectionable excuses. The recommendations for further research include SMEs having a public relations desk to assist student in that regard. Government should institute policies that allows students to access data from businesses that can be properly analysed and given back to business owners to access and evaluate objectives where the need be. There should be a correlation between business and academia. Besides that, it is recommended that future research in this area of work uses a larger sample size. This should be done within the context of scientific support and relating with other countries.

### **5.4 Conclusion**

A cursory look at Corporate Governance among SMEs from the perspective of NBSSI shows that SMEs not practicing good governance system performance and output levels is lower as compared with those having good governance mechanism. This is to say that, the carrying out of corporate governance systems is of immense value as it brings new strategic viewpoint by

involving independent directors. When corporate governance guidelines and principles are properly applied, it results to value creation which is not a threat to shareholders. It is worth noting that a consistent track record of good governance will greatly help in seeking new funds and improved performance.

It thus becomes informative that, all stakeholders particularly shareholders, management, government agencies and suppliers partner in implementing corporate governance.

## **5.5 Recommendation**

Base on the findings of the study, these recommendations are made.

### **5.5.1 Policy Makers**

1. Government policies on corporate governance should be fine-tuned to suit SMEs.
2. Government should remove superfluous legal and regulatory limitations that impede the establishment and registrations of SMEs.
3. NBSSI should be empowered to regulate the activities of SMEs and also present them with practical tools to help them to sustain and grow their business.

### **5.5.2 Shareholders of SMEs**

1. Shareholders should implore the services of corporate governance expert to train them on best practices of corporate governance.
2. Shareholders should ensure that right professionals are brought on board and ensure that board committees meet regularly and provide needed commendation.
3. Shareholders should clearly state duties of board directors when appointing them.

4. Will recommend that SMEs find alternative ways in rewarding NEDs. This can be done by awarding shares to them in order to feel ownership of the business. This comes with the challenge that, “there may be no market price for the shares. As Professor Chambers notes, Rewarding SME NEDs in shares or share options is more straightforward if the SME has an exit strategy which, if it is achieved, will realise the value in the shares”. (ACCA, 2015)

### **5.5.3 Directors of SMEs (Executive and Non-Executive Directors)**

1. Board of Directors should partner with management to institute internal control measures to access risk and liquidity issues. Will encourage them to have internal audit unit in every SME.
2. Board directors should strategize and publish Mission Statement and policy direction of enterprises.
3. Continuous education on good governance system for directors.
4. Directors should ensure there is standardisation in the operations of SMEs.

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## **INTERVIEW GUIDE FOR MA THESIS (FOR SMEs)**

**Contact:** +233 276 922 498 //kingsleyjan@gmail.com

**Title:** *Corporate Governance Among SMEs: Challenges and Benefits*

This research seeks to identify challenges and benefits SMEs derive in practicing corporate governance. The information gathered will be confidential. Thank you for your cooperation.

1. Name of Institution:
2. Job Function or Role:
3. Age range:
4. Academic qualification:
5. How many years has the organization being in existence?
6. Industry: a. Manufacturing [ ] b. Entertainment [ ] c. Commerce [ ]  
d. *Others.... ICT*

### **SECTION 2 CORPORATE GOVERNANCE FOR SMEs**

1. Do you agree with the definition NBSSI has on SMEs?
2. How is your organization structured?
3. How well do shareowners of SMEs know and understand about corporate governance?
4. What is the corporate governance system within your company?
5. Distinguish the difference between SMEs who are structured and not?
6. What are the procedures your organisation goes through when making a strategic decision or plan?
7. What are some of the policies established as a result of corporate governance?
8. Do you really think SME issues are due to credit or managerial system in place?

### **SECTION 3 ISSUES OF CORPORATE GOVERNANCE**

1. Who are the key players of corporate governance in your organisation?

2. What are some of the issues your organization face in practicing good corporate governance?
3. What are some of the checks and balance in your organisation?
4. What is the relationship between the board and management?

#### **SECTION 4 BOARD OF DIRECTORS**

1. Does your company have board of directors? If Yes, what is the size of the board?
2. How is the board composed?
3. What are some of the committees in the board?
4. What are some of the functions of the board?
5. Do shareowners have representatives on the Board?

#### **SECTION 5 BENEFITS**

1. What are some of the benefits your organisation is deriving from instituting corporate governance?
2. How is the interest of shareholders brought in line to ensure business goals are achieved?

#### **SECTION 6 CHALLENGES AND COMMENTS**

1. What are some of the challenges your organisation is facing while practicing corporate governance?
2. Are there any family related challenges or shareholder issues in preventing the advancement of corporate governance in your organisation?
3. Is there any interference from the board in the operations of your organization?
4. What recommendation would provide to solve the challenges above.