



BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

GRADUATE SCHOOL OF BUSINESS

**THE SIGNIFICANCE OF CORPORATE GOVERNANCE IN SMALL AND
MEDIUM ENTERPRISES IN ZIMBABWE: A STUDY OF MAGABA SMES
INDUSTRY IN MBARE, HARARE.**

BY

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DEDICATION

This research is dedicated to my queen and lovely wife Susan, son Mike and daughters Nyasha and Natasha for their ability to endure long periods of loneliness while I was away conducting this important study.

ABSTRACT

The study titled ‘**The significance of corporate governance in Small and Medium Enterprises in Zimbabwe: A study of Magaba SMEs Industry in Mbare, Harare**’ was undertaken after a realisation that SMEs were experiencing corporate governance shortcomings a situation that was affecting their survival and sustainability. The study sought to establish how key corporate governance aspects namely; the educational background for SMEs, owner-manager set up, internal control and succession planning were affecting the sustainability of SMEs. The research further sought to identify ways or a framework that SMEs can employ in order to enhance their chances of survival. The descriptive survey design was used on the selected sample of SMEs in the study area. The dependability of the findings was enhanced by the triangulation of information from sources such as questionnaires and interviews. In order to avoid bias, the researcher used simple random sampling procedure to pick the SMEs who were part of the study sample while purposive sampling was used to select leading SMEs who have operated in the area for a long time. The collected data was presented in the form of tables, graphs and pie charts. These presentation procedures were accompanied by a brief descriptive interpretation and analysis of the information presented. This was done in order to make correct and reliable conclusions which were used as a basis for the recommendations. The study found out that SMEs in Magaba Industry did not have good and relevant educational backgrounds to run their business as well as to understand the significance of corporate governance in business. The research further found that SMEs in the study area did not have effective internal controls to curb avoidable losses through crimes like thefts and fraud. Regarding succession planning, the study found out that SMEs did not have succession plans which are necessary for their survival beyond the present management. Against these findings, the study recommended that SMEs must improve their educational backgrounds and introduce effective internal controls and succession plans for their businesses for sustainability to improve. It was further recommended that government should emphasise the Education 5.0 policy in secondary education so that entrepreneurial skills are cultivated in learners at an early stage.

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LIST OF ABBREVIATIONS

SME	Small and Medium Enterprise
IFC	International Finance Corporation
SEDCO	Small Enterprise Development Corporation
ADB	Asian Development Bank Institute

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Small and Medium Enterprises (SMEs) have become key players in the economic development of several countries. As an illustration of their importance, many countries possess fully fledged ministries that are responsible for the coordination and running of SMEs affairs. Despite their pivotal role in national economies, one common characteristic among SMEs is the challenge of poor corporate governance practices which always leads to poor performance and short lifespan. This study on the significance of corporate governance in Small and Medium Enterprises in Zimbabwe was conducted in the Magaba SMEs Industry in Mbare, Harare. Chapter 1 introduced the area of study and covered aspects such as the background of the study, statement of the problem, research objectives, research questions, significance of the research, research limitations, etc.

1.2 Background of the Study

Since the early 1970s SMEs began to play key roles in many economies particularly in then-fast developing countries in Asia and Europe, (Maranga, 2014). The success stories of innovation hubs like the Silicon Valley and the Cambridge District in the USA and UK respectively spurred many countries to promote the growth of SMEs. The emergency of these SMEs saw them operating hugely in an informal way which in many cases across the whole world retarded their growth and became catalysts for their demise. It was therefore, realized that the governance of SMEs had to mirror that of any other formal entity if SMEs were survive, (Ndagu and Obuobi, 2010).

According to Ndagu and Obuobi (2010), the call for effective corporate governance should no longer be confined to big and public enterprises. Good corporate governance and

application of governance principles now also applies to SMEs because such principles are, without doubt, the foundation for every company's success and survival. According to Maranga (2014), SMEs account for more than 90% of global firms and on average, they contribute about 50% of GDP and 60% of employment in various nations. The Asian Development Bank Institute (ADBI) (2016), posits that Asia has been continuously growing during the recent decades and this growth has alleviated poverty and increased the number of middle-income countries in the region. That notable growth is largely attributed to the significant role played by SMEs. The ADBI (2016), further mentioned that SMEs are the backbone of the economies of Asia since on average, they accounted for 98% of all enterprises and 66% of the national labor force between 2007 and 2012. SMEs further contributed 38% of the gross domestic product over the same period (ADBI, 2016). With such a positive impact on economic development, employment creation, poverty alleviation and the general uplifting of citizen livelihoods, it is worrisome to note that there exist an unpleasant characteristic that seems to affect most SMEs namely, poor governance. The ADBI (2016), highlighted that most SMEs in China, Malaysia, Japan, Vietnam, India, Pakistan, etc that initially look destined for success had seen their fortune and survival severely affected by poor corporate governance practices.

In Africa, SMEs have also become key players in the economic prospects of the whole continent. The United Nations Conference on Trade and Development, (UNCTAD), (2015) emphasized that SMEs are important agents of development throughout Africa and the world so promoting a country's SME sector plays a crucial role in maintaining high employment and income generation which makes it critical for achieving sustainable growth. But as Abor and Biekpe (2017) pointed out after analyzing the way SMEs were being run in Ghana, poor adherence to corporate governance principles was having severe and negative impact on their profitability and ultimate survival.

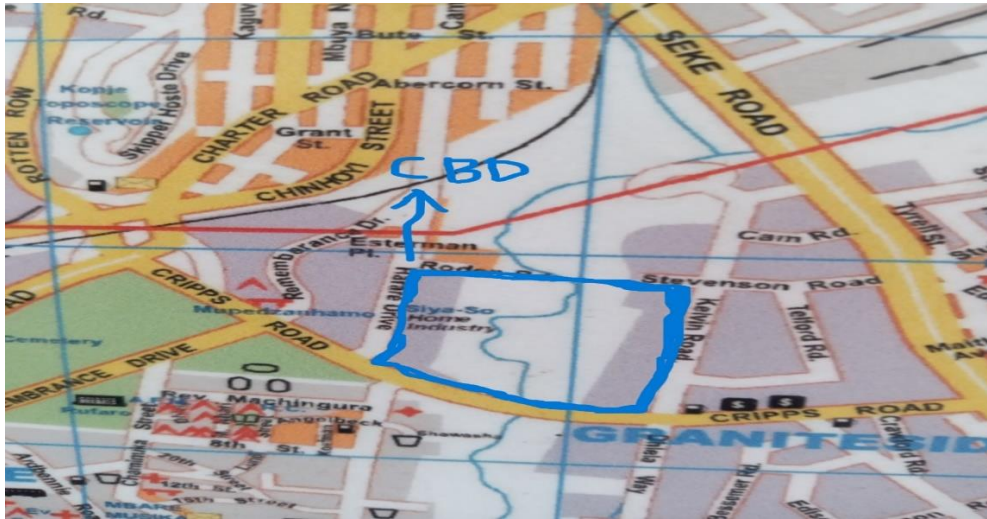
According to Reserve Bank of Zimbabwe governor Dr. Mangudya, as cited by the RBZ Journal (2017), in Zimbabwe, the SMEs sector is playing a critical role in economic development through job creation and poverty alleviation as well as contributing more than 60% of the country's GDP. The majority of the economically active citizens in Zimbabwe have, since the late 1990s, been surviving through operation of small businesses

(Nyamwanza and Mavhiki, 2014). This position is well supported by findings from a survey done by the FinScope in 2012 which found out that SMEs in Zimbabwe employ approximately 5.7 million representing 73% of the total national workforce of 7.8 million (FinScope, 2012).

In order to demonstrate its seriousness and high regard towards the importance of SMEs, the Government of Zimbabwe in its Vision 2030 blueprint which was launched in September 2018 clearly stated its commitment towards supporting SMEs. The Vision 2030 policy mentioned that it envisages the creation of an enabling environment to support Micro, Small and Medium Enterprises so that these contribute meaningfully towards economic growth, value addition, exports, and decent employment creation (GoZ, 2018). This important position was followed up the launch of Education 5.0 which sought to introduce and revolutionarise the education system of the country so that it empowers learners with entrepreneurial skills for them to be able to start up their own business and become employers rather than employees. All these measures were intended to promote the performance of SMEs so that they play a crucial part in the Zimbabwean economy as the country strives to a middle class economy by 2030.

One area that is intended to play a key role in the Vision 2030 drive is the Magaba SMEs Industry in Mbare, Harare. Magaba SMEs Industry, formerly and also known as 'SIYA SO' is the oldest and largest informal sector in Harare which was unofficially established in the 1950s. Magaba SMEs industry is located about three kilometers South of Harare's city center and adjacent to Graniteside industrial areas. The word Magaba means 'tins', and this was used in the early days referring to the small group of tinsmiths who produced products from empty tins and other steel products to generate income (Chirau, 2012). Today the industry has grown and now has hugely diversified range of enterprises that manufacture a variety of products. The area is popular due to its location that is close to the Harare's main bus terminus in Mbare.

Figure 1: Magaba (Siya-So) SMEs Industry Site Map



Source: Harare City Street Map 2018.

After independence and particularly after the Zimbabwean economy started to face difficulties, the Harare City Council embarked on a strict programme to regularize and registering all SMEs operating under its jurisdiction (Nyamwanza and Mavhiki, 2014). According to the City of Harare September 2021 Register, Magaba SMEs industry houses 523 registered operators. But as well put by (Chirau, 2012), there are several (over 200) unregistered enterprises in the same area whose operations are not licensed due to factional differences based on political affiliations.

In view of the importance of SMEs to the nation, Magaisa et al, (2013), warned that the existence of SMEs is however, in perpetual danger as the sector is riddled with absence of proper governance mechanisms that lead to planning failures and retarded growth. Because SMEs in Magaba are largely run in an informal way characterized by family-led businesses, the governance structures of the SMEs is poor. Key corporate governance practices like presence of company boards, internal controls, etc are never put in place a situation that has seen several SMEs underperforming and subsequently folding within very short periods. This study therefore, sought to establish the significance of good corporate governance practices in the SMEs industry with a view of ensuring that they improve their chance of survival for them to achieve the much needed growth.

1.3 Statement of the Problem

While the pivotal role that SMEs play in employment creation, poverty reduction, economic growth, etc is acknowledged throughout the world, it is however, worrying that the survival of SMEs has continued to be a cause for concern. According to the ZIMRA Monthly Gazette (2014) the then ZIMRA Commissioner General Mr Gershom Pasi once bemoaned the lack of sustainability and growth in SMEs due to bad practices that include non-adherence to tax laws, poor corporate governance, poor education, inadequate infrastructure among others. The International Finance Corporation as cited by Sanaad Abouzaid (2014), stated that for SMEs to improve their odds of survival, they ought to improve their educational backgrounds, design clear owner-manager roles, put in place credible succession plans and implement other good corporate governance practices like having a company board. In Zimbabwe, SEDCO (2014) pointed out that of every 100 SMEs established, 60% of them fold and close business with the first year of establishment, a further 25% close within three years and the last 15% constitute the few that are likely to survive beyond 5 years. These statistics mean that within three years of establishment in Zimbabwe, 85% of every 100 SMEs would have folded due to poor education, lack of succession plans, poor internal controls, etc. In the Magaba SMEs industry in particular, statistics given by SEDCO (2019), show that survival is proving to be difficult for many SMEs as 63% fail within the first year and 29% cannot survive beyond three years due to poor corporate governance. This leaves a mere 18% with a likelihood of going beyond 5 years. Nyamwanza and Mavhiki (2014), argued that the possibility of seeing an SME operating in Magaba after 4 to 5 years is less than 10% as many would have gone down due to a wide range of corporate governance malpractices like poor education, lack of internal controls, owner-manager complexities, etc. What is surprising is that the defunct SMEs are quickly replaced by new ones who also succumb to the same fate resulting in an unpleasant vicious circle of failure. In light of this problem, this study sought to establish the significance of good educational background and key corporate governance practices namely; owner-manager roles, presence of company board, internal controls and succession planning in the SMEs industry so that the sustainability of SMEs is enhanced. The study focused on Magaba SMEs Industry in Mbare, Harare.

1.4 Research Objectives

The main objective of the study was to establish the significance of corporate governance in SMEs concentrating on identifying whether there is a link between a good educational background, key corporate governance practices namely; owner-manager roles, presence of company board, internal controls and succession planning and the sustainability of SMEs in Magaba SMEs Industry. The secondary objectives that guided the study were as shown below;

- a. To establish whether the level of education has a bearing on good/poor corporate governance practices.
- b. To establish whether the owners have an effect on the sustainability of SMEs.
- c. To establish whether internal controls exist in SMEs and their impact on company survival/sustainability.
- d. To formulate ways or a framework for improving SMEs sustainability in Magaba.

1.5 Research Questions

The overall research question was: Is there a link between a good educational background, key corporate governance practices namely; owner-manager roles, presence of company board, internal controls and succession planning and the sustainability of SMEs in Magaba SMEs Industry. The study sought to address the below listed secondary questions;

- a. Does the level of education has a bearing on good/poor corporate governance practices in SMEs in Magaba?
- b. Do the owners' role has an effect on the sustainability of SMEs in Magaba?
- c. Do internal controls exist in SMEs in Magaba and what are their impact on company survival/sustainability?
- d. What ways/framework can be effected to improve SMEs sustainability in Magaba?

1.6 Hypothesis

- a. The level of education has an effect on corporate governance practices in SMEs in Magaba.
- b. The owners' role has an effect on the survival of SMEs in Magaba Industry.

- c. Internal controls have an effect on the sustainability of SMEs in Magaba.

1.7 Purpose of the Study

The purpose of this study was to establish the significance of corporate governance in Small and Medium Enterprises in Zimbabwe and the study focused Magaba SMEs Industry in Mbare, Harare.

1.8 Justification of the Study

Corporate governance has historically been linked to large, publicly traded businesses since these businesses are legally compelled to have explicit standards governing how executives make decisions and disclose information related to the company, (Badza et al, 2020). Studies done in the field of corporate governance have also stuck to this conventional approach even in cases where SMEs are involved. Furthermore, most studies have tended to generalize and consider every aspect of corporate governance and how it is applied by an entity. As a result, most findings from such approaches have proved to be largely over generalized and also out of context when applied to the SMEs world a situation which explains why most SMEs fold within very short periods of operation, (Gwatsvaira et al, 2016). Considering the importance of SMEs in the Zimbabwean economic landscape, relevant and specific studies on how key corporate governance issues/practices namely; good educational background, owner-manager roles, presence of a company board, internal controls and succession planning impact on the sustainability of SMEs are necessary. This study was therefore, done to establish the significance of these important corporate governance aspects in the survival of SMEs focusing on Magaba SMEs Industry in Mbare.

1.9 Significance of the Study

This study has a lot of significance to a number of constituencies as detailed below;

To the Ministry of Higher and Tertiary Education. The study will go a long way in highlighting to the Ministry of Higher and Tertiary Education on the need to infuse aspects of corporate governance in the education curriculum in line with Education 5.0 which seeks to empower graduates with entrepreneurial skills.

To the Ministry of Small and Medium Enterprises. The Ministry of Small and Medium Enterprises has a vested interest on the performance of SMEs. In that regard, this study will enable the Ministry to identify shortfalls in the corporate governance of SMEs so that remedial measures can be taken from an informed position.

To the researcher. Every research increases and broadens the knowledge base of every individual. In that regard, the research will equip the researcher with knowledge about the area under study.

1.10 Delimitations

The Magaba SMEs industry has been running for several decades. However, this study will concentrate on corporate governance practices of the SMEs as from 2019 to 2022. Furthermore, the study will be confined SMEs in Magaba in Mbare even though several other SMEs are located in various parts of Harare.

1.11 Limitations of the Study

The researcher is a full time employee and as such time was a major constraint. Financial resources also affected the conduct of the study. To counter these limitations, the researcher applied for study leave and sourced some funds to ensure that the research was done comprehensively. The researcher also faced resistance from some SMEs in the study area who were skeptical about the reason and essence of the research. The researcher however, managed to explain himself well and convinced such SMEs to willfully partake in the study as they understood the academic thrust and confidentiality of the study.

1.12 Dissertation Lay Out

The dissertation was divided into 5 chapters as detailed below:

1.12.1 Chapter 1: Chapter 1 is the introduction of the study and it covered the background to the study, statement of the problem, research objectives, research questions, hypothesis, significance of the study, delimitations and limitations of the study.

1.12.2 Chapter 2: The literature review was covered in this Chapter including the conceptual framework, theoretical framework as well as the empirical literature.

1.12.3 Chapter 3: This Chapter covered the research methodology where the research philosophy, research design, sampling methods, data collection, data gathering instruments and research ethics was discussed.

1.12.4 Chapter 4: Chapter 4 covered the presentation and interpretation of results.

1.12.5 Chapter 5: This chapter presented the research conclusions and recommendations.

1.13 Chapter Summary

Chapter 1 introduced the research problem by outlining the background to the study. Thereafter, the statement of the problem was presented as well as research objectives, research questions and assumptions. The significance of the study, justification of the study and limitations to be encountered were also given in detail. The next chapter will review literature related to the study.

CHAPTER TWO

LITERATURE VIEW

2.0 Introduction

This chapter reviewed literature that was relevant to the study. The definition of corporate governance, the conceptual and the theoretical frameworks that guided the study were also covered in detail. Empirical literature related to the objectives of this study as well as on the importance of corporate governance within the SMEs industry was also covered in this chapter.

Mugenda and Mugenda (2013) state that literature review is the process of identifying and understanding an account of what has been published on a topic by accredited scholars and researchers. Kothari (2014) backed up this claim by defining literature review as a process that entails locating, reading, and assessing earlier reports, observations, and opinions that are relevant to the person's research project. There are many reasons why a researcher should always review literature. The standout reasons are basically to ensure that the researcher is aware of the issues related to his/her study and to afford the researcher an opportunity to identify gaps on the existing and established facts so that his/her study concentrates on filling such gaps. Parton, (2012:209) while emphasizing on the need to review literature says, "...and when you know what others have done, you are better prepared to attack with deeper insight and have more complete knowledge on the problem you have chosen to investigate." During this study a number of search engines and/or sources were used in order to extensively review literature related to the study. These sources included the internet, books, journals and media publications.

2.1 Corporate Governance

The phrase corporate governance comes from two words namely; corporate and governance. A corporate is defined by Afolabi (2015) as something belonging to a

company, institution or body. Governance on the other hand encompasses the system by which an organisation is controlled and operates, and the mechanisms by which it and its people are held to account (Blair, 2015). From these two definitions, Dhliwayo (2004) gave a combined definition of corporate governance as the procedures and frameworks used to oversee and manage an institution's operations with the goal of preserving its soundness and maximizing shareholder value.

Corporate governance, according to O'Donovan (2010), is an internal system made up of policies, processes, and people that directs and controls management activities with sound business judgment, objectivity, and integrity in order to serve the needs of shareholders and other stakeholders. The above definitions concurs with the one brought out in South Africa by the King Committee on Corporate Governance (2002) which said, corporate governance is the process by which direction and control are used to oversee an organization's financial and non-financial assets in order to pursue and achieve the main goal of sustainable value creation.

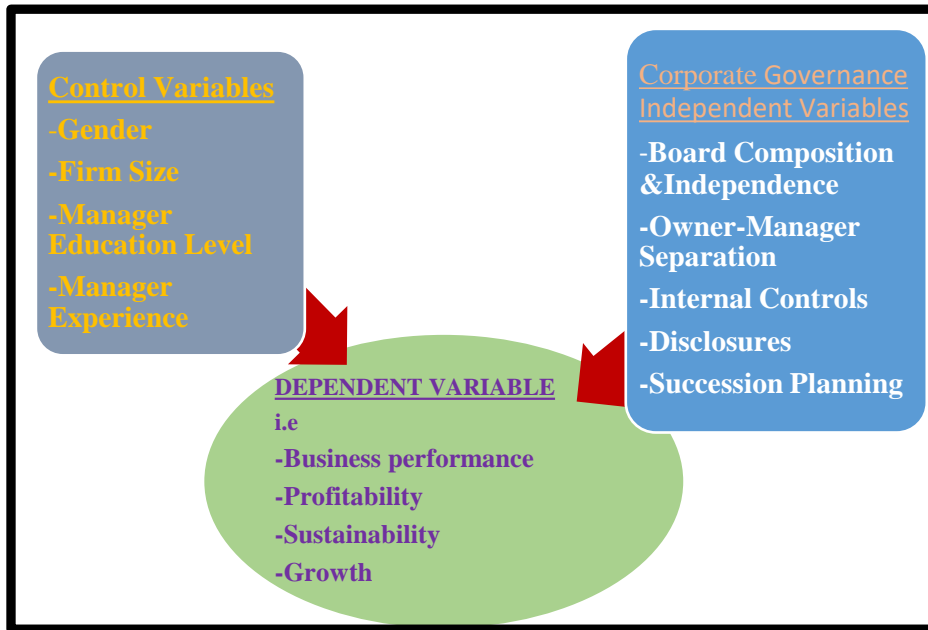
The above given definitions all bring to the fore important characteristics about corporate governance which are key to the running of SMEs. The issue of policy, processes, shareholders, stakeholders, management, accountability and control are inherent in all enterprises. Good management and strict adherence to these important aspects regarding corporate governance allows SME operations and prospects to be successful and sustainable.

2.2 Conceptual Framework

A conceptual framework demonstrates a connected series of ideas about the operation or relationships between various elements of a specific phenomenon (Svinicki, 2010). According to Sitko, (2013), it represents the basis upon which the researchers base their research on a set of ideas, presumptions, expectations, beliefs, and theories. A conceptual framework can be displayed narratively or graphically, with the main elements or variables and their relationships being highlighted. In that regard, the framework outlines the relationship among different variables.

The conceptual framework used in this study showed the nexus between corporate governance structures which are the independent variables namely, internal controls, owner-manager separation, board independence and disclosure and the business survival (dependent variable). The firm's size, owner/manager experience, gender and qualifications were also included since they have an influence on how the independent variables affect dependent variable.

Figure 2: Corporate Governance Conceptual Framework.



Source: Coopers (2015) Corporate Governance Toolkit for SMEs.

This conceptual framework was pivotal in assessing the governance of the SMEs in this study as it enabled the researcher to take an in-depth examination and analysis of the mentioned variables as they applied to SMEs. Adeusi et al (2016) points out that the level of corporate governance employed by any firm can be assessed through analyzing the relationship that exists among the key variables of corporate governance which are board size and independence, ownership/CEO duality, presence of internal controls, succession plan and the dependent variable.

2.3 Theoretical Framework

There are several corporate governance theories that guide the running and management of any institution in order to optimize performance and guarantee sustainability. For the purpose of this study, the following theories were considered;

2.3.1 The Agency Theory

According to Jensen and Meckling as cited by Tricker (2012), the agency theory is one of the most widely used theories in management and corporate governance. The theory is about the relationship between two parties, the principal (owner) and the agent (manager).

It examines this relationship from a behavioral and a structural perspective. The theory suggests that given the chance, agents will behave in a self-centered manner and pursue behavior traits that may conflict with the principal's interest, (Cruz et al, 2010). As such, principals will enact structural mechanisms that monitor the agent in order to curb the opportunistic behavior and better align the parties' interests.

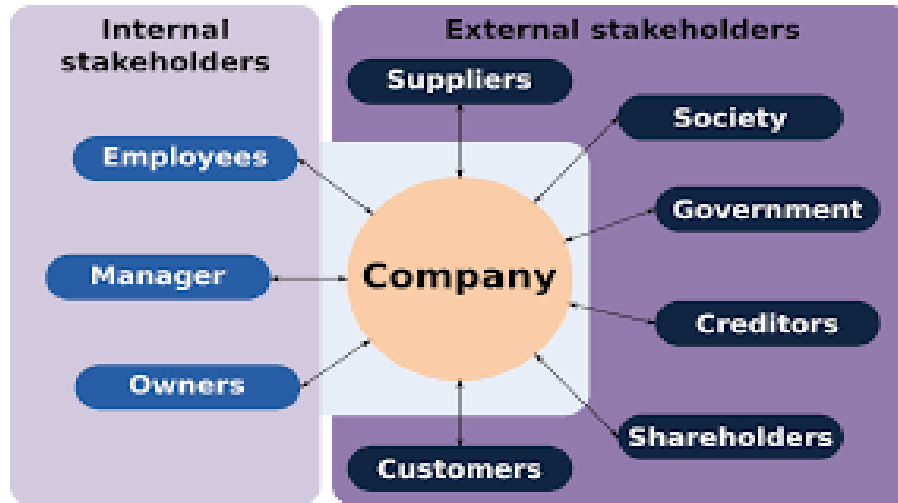
The assumption is that agents will only work diligently for the principals if incentives are appropriately aligned. This means shareholders will incur agency costs in an effort to align the agents' interest to theirs. In companies with poor corporate governance, which includes weak monitoring and disciplinary systems, managers have opportunities to advance their own interests (Tricker, 2012). There may be room in such circumstances for the executive management to enrich themselves through sizable salaries and allowances.

The agency theory was very important in the study of SMEs in general and for this study in particular as over 85% of SMEs shun the use of agents something that has a huge contribution towards their performance and survival. The theory was used in this study to analyse, basing on the independent variables highlighted in the conceptual framework, how the performance and survival of SMEs is influenced by adherence or lack of adherence to the agency theory.

2.3.2 The Stakeholder Theory

The stakeholder theory adopts a wider view of the company. According to Maher and Anderson (1999), the company pays attention to a larger constituency that includes employees, customers, suppliers, creditors, government, and society at large in addition to the interests of shareholders. Hammann et al (2009) emphasized that the management of relationships with key stakeholders is quickly turning into a valuable asset for value-generation, which means the success of an organization depends on how it manages its relationships with its stakeholders. Stakeholder inclusion would ensure the growth of communities where everyone works to fulfill the firm's promises and enhance everyone's circumstances (Freeman et al, 2004). The board of directors should therefore, conduct its business with the understanding that various stakeholders are involved and will be impacted by any decisions made by the agents..

Figure 3: The Stakeholder Theory



Source: Wright, (2021), [www.//.hptt./Cascade.blog](http://Cascade.blog)

Since important stakeholders like owners, employees, customers, competitors, suppliers and the financial community are pivotal to the success of SMEs. This study utilized the stakeholder theory in assessing how SMEs in Magaba industry engage with both internal and external stakeholders as well as maintain relations with them in pursuit for growth, positive performance, and sustainability.

2.3.3 Resource-Dependence Theory

According to the resource dependence theory, a company's long-term success depends on its capacity to connect with the outside world in order to obtain resources for the company (Gabrielson and Huse, 2012). In this regard, in order to ensure the creation of a consistent and continuous flow of resources for the achievement of the organization's goals, the governing body of a company (the Board of Directors or owners) is viewed as a link between the company and its environment. These resources include relevant technologies, sources of finance, information, relationships with other businesses relevant customers and competitors and other societal networks.

The resource dependence theory is key in the successful running of SMEs since their well-being and survival rests directly on how they manage to harness and secure resources. For

this study, the theory was used to establish, assess and analyse how the SMEs in Magaba industry were performing in resource mobilization and usage. The role of owners in engaging and networking with key business partners was analysed based on this theory.

2.4 Entrepreneurship Theories

2.4.1 Human Capital Entrepreneurship Theory

The human capital entrepreneurship theory is one of the major theories in the SMEs industry. According to Bekker as cited by Gartner et al, (2015), underlying the human capital entrepreneurship theory are two factors, education and experience. The knowledge gained from education and experience represents an invaluable resource that is distributed and instilled across individuals. That knowledge is central to SMEs/entrepreneurs in understanding and identifying opportunities within the industry (Anderson & Miller, 2013). As well put across by Korunka et al, (2013), empirical studies show that human capital factors are positively related to becoming a successful entrepreneur and increase opportunity recognition which ultimately lead to increased corporate performance.

One of the reasons that many critics put forward as reason for the high failure in the SMEs industry is poor educational background. For this reason, the Human Capital Entrepreneurial theory was useful in guiding this study in as far as assessing and appreciating the importance of entrepreneurial education in SMEs is concerned.

2.4.2 Opportunity-Based Entrepreneurship Theory

According to this theory, entrepreneurs are viewed not as change perpetrators but are good at exploiting the opportunities that changes in areas such as technology, consumer preferences etc, create (Korunka et al, 2013). The author further states that entrepreneurs, in this case SMEs, always search for change and responds to it then go to exploit it as an opportunity (Korunka et al, 2013). What is apparent in this theory is that entrepreneurs have to concentrate and have their eyes more on possibilities and positives created by change than the problems. Ngahu (2018), added another dimension to the opportunity-based entrepreneurship theory to include resourcefulness. By resourcefulness the author emphasised that every entrepreneur must, in addition to have an eye for opportunities, be

efficient with the little resources available. Wastage and lack of discipline in the use of resources is one big let-down of several SMEs.

The opportunity-based entrepreneurship theory was very useful during the study as it enabled the researcher to analyse and assess how SMEs in the study area were handling several changes and the little resources available within their environment. SMEs that identify opportunities instead of problems during times of change were likely to remain afloat and increase their chance of survival.

2.5 Principles of Corporate Governance

According to King (2010), corporate governance principles are the pillars upon which every corporate must strive to lean on and follow for it to survive in business. Principles give standard guidelines on what must and what must not be done. The four principles explained below are key in ensuring that SME business practices are given the correct bearing and pathway for them to perform well and survive.

Figure 4: Corporate Governance Principles



Corporate Governance

Four Pillars of Corporate Governance

- **Transparency;** timely, accurate disclosure on all material matters, including the financial situation, performance, ownership and corporate governance
- **Accountability;** management is accountable to the Board; Board is accountable to shareholders
- **Responsibility/Independence;** free from the influence of others; avoid completely conflicts of interest
- **Fairness;** Shareholders rights; Treat all shareholders including minorities, equitably; Provide effective redress for violations



The graphic shows four golden pillars standing on a base. Each pillar is labeled with a principle: 'TRANSPARENCY', 'ACCOUNTABILITY', 'RESPONSIBILITY', and 'FAIRNESS'.

Source: Central Bank of Rwanda November 2016 Monthly Gazette.

Accountability. According to King (2010) accountability refers to the practice of being able to explain every action you make in your business. This vital in building confidence among a firm's stakeholders and shareholders. The company management must determine the best systems for keeping the corporation accountable to stakeholders in a fair, balanced, and understandable way through proper reporting (Monks and Nell, 2014).

Transparency. Just like accountability, transparency, engenders confidence (Monks and Nell, 2014). It allows others know that the company has nothing to hide while improving accountability for the company's actions. As well explained by King (2010:112) "the company's willingness to provide clear information to all shareholders and stakeholders regarding its performance plays a significant role in any decision." Transparent processes allow company management to make informed and powerful decisions promptly and for the good of the company.

Fairness. According to Abouzaid (2014), good corporate governance practices require equal treatment of all shareholders and/or stakeholders. Fairness relates much about ethics and discharging business in a morally up right manner. Failure to do this leads to a lack of support and interest in the company by key stakeholders especially shareholders who always believe that they cannot invest in a company that treats some better than others (Monks and Nell, 2014).

Responsibility. Power must be exercised responsibly in every company set up. It is the responsibility of every company management to ensure that all the above mentioned principles are implemented by the company. According to Monks and Nell (2014), the need to be fair, accountable and transparent remains the responsibility of management to every stakeholder. Failing to lead responsibly and in an informed and reasonable manner hurts your corporation at every level.

Ubuntu. The Zimbabwe National Code on Corporate Governance (ZIMCODE), (2010), propounded another important principle called Ubuntu. According to Magaisa et al (2013), Ubuntu is a concept and a deep spirit that stems from traditional African beliefs and practices. Ubuntu teaches and promotes the humane side of every action by an individual or company. It discourages selfishness and promotes all the above mentioned

principles. It calls company management to think and act not for their personal benefit but for the common good of every stakeholder that has an interest in the company affairs (Magaisa et al, 2013).

The above highlighted principles were central in the analyzing the conduct of business by SMEs in Magaba Industry. Since good corporate governance practices are expected to conform to the five principles, the study assessed how the SMEs were performing against the given principles.

2.6 Empirical Literature

2.6.1 Nexus between Education and Corporate Governance Practices

Good corporate governance is pivotal to the success and operational efficiency of any company more-so, to SMEs that are always prone to mismanagement. Several studies have been conducted with a view to establish the link between the educational background of company management and the standard of corporate governance exhibited by such companies as depicted by their overall performance, growth and longevity in business.

Before an in depth look into the link between company management educational background and company performance is given, it is important to highlight that the correlation the two (management education and performance) is well explained and supported by the Upper Echelon Theory (UET). According to Hambrick and Mason, (1984) as cited by Ting et al, (2015), The Upper Echelon Theory (UET) suggests that the personal characteristics of top managers or CEOs such as age, education and tenure have a powerful impact on the management decisions of a company. Ting et al (2015) further assert that the higher the complexity of a decision, the more important the managerial characteristics such as age, education and tenure become and are required. It is from the UET perspective therefore, that the corporate governance capabilities and performance of any company management are validated. Many scholars have sought to establish the efficacy of the manager - education – performance equation using the upper echelon theory.

According to King et al (2016), studies done with Brazil's leading companies that included Telefonica, Previ, Telemar Participacoes, BBD Participacoes and Stichting Gerdau Johannpeter (Pvt) Ltd, proved that a CEO or director of a company with a strong educational background can help boards to become a major source of competitive advantage for a company over its rivals. Findings from the study showed a positive relationship between adherence to good corporate governance practices, good company performance, positive growth indices etc and the existence of management that possessed healthy educational backgrounds (PHDs, Masters Degrees and/or undergraduate degrees).

Pang et al (2020), conducted the management education and governance performance in Indonesia. The survey included 160 companies that are listed on the Indonesian stock Exchange. A performance assessment was done looking at management that possessed university undergraduate degrees, masters' level and PHD level. The findings of the study showed that CEOs with degrees from university or other higher learning institutions performed better in terms of governance, risk management and critical decision making than CEOs without similar qualification (Pang et al, 2020). The Indonesian survey therefore, support the positive impact of good managerial education on both corporate governance and company growth.

In Africa, similar studies were done in Nigeria. Saidu (2019) stated that a sample of 222 firms listed in Nigerian stock exchange were studied over the period 2011-2016 with a view of identifying the nexus between management educational background and the companies' governance and operational performance. Results from the studies concluded that excellent CEO/management education can significantly enhance firm's value and ultimately translate into good performance and higher chances of sustainability.

Zimbabwean studies on the same matter have also found similar results particularly on big companies that are listed on the Zimbabwe stock exchange. According to Maune, (2016), the CEO/management education and performance survey on companies like Barclays Bank, Econet, Nyaradzo Funeral Services and Delta Beverages which was conducted between 2012 and 2015 found out that good educational backgrounds of CEO, Directors and several key managers were a catalyst for good corporate governance and credible leadership in such companies. Their overall performances over the same period reinforce the notion that a healthy

educational background leads to a healthy performance and corporate governance practices. The findings mentioned that then Barclays Bank CEO George Guvamatanga was a Masters Degree holder in addition to other several academic achievements, Nyaradzo Funeral services owner Mr Phillip Mataranyika was a holder of a Masters Degree, while Econet and Delta possessed several directors with Phds and Masters Degrees hence their good corporate governance track record and high market performance (Maune, 2016).

According to Gombarume and Mavhundutse (2014), corporate governance in SMEs in Zimbabwe was being retarded by poor educational backgrounds of owner/management. The two authors in their survey confirmed that SMEs that were run by directors, owners or managers with tertiary level qualifications like diplomas, degrees or higher were performing much better than those run by leaders without sound education. The Gombarume and Mavhundutse (2014), study revealed that of the 78 SMEs that had folded in Chitungwiza between 2009 and 2011, 51 of the constituting 73% had owners or management that had no recognizable tertiary education. The remaining 21 representing 27% had management that possessed qualifications ranging from diplomas all the way to masters degrees. Because of this huge educational disparity, the SMEs were subjected to different governance environments which ultimately determined their survival or demise.

Similar findings were also obtained in a survey conducted by Chidamoyo and Dumbu (2012) with SMEs in Masvingo urban. According to the results of the study, SMEs that were run by management with a healthy educational background exhibited traits of good corporate governance practices like transparent financial management, presence of internal controls etc. Chidamoyo and Dumbu (2012) further stated that 81% of SMEs that operated in Masvingo flea market and Mucheke Home Industry (Rank Area) between 2007 and 2011, had failed to operate beyond two years. Over 90% of that percentage was run by owner-managers with no professional qualification. 19% of the figure that operated for 5 years or more was being managed by owner-managers with at least a diploma (Chidamoyo and Dumbu, 2012). From these findings, the authors concluded that good corporate governance and good educational background were strongly connected to each other and were ultimate catalysts for company success, growth and sustainability.

But some few studies across the world produced contrasting findings as they established a negative correlation between good education and corporate governance/company performance in some companies. According to Fedaseyeu et al (2018), studies in Indonesia unearthed one big and important factor namely; that good educational background for top company management had a positive correlation with good governance and good company performance mainly in big corporations like multi-national enterprises. However, the same was not necessarily applicable to family owned businesses and small and medium enterprises. A survey carried involving 256 SMEs in Jakarta between 2014 and 2016 revealed that there was no link between good educational background and good corporate governance as 50% of SMEs studied possessed tertiary education qualifications like MBA, PhDs etc but their governance and operational performance was relatively poor (Fedaseyeu et al, 2018). The other 50% involved SME business leaders with advanced technical qualifications like journeymen, electricians, welders, etc. These exhibited better operational success in their companies as they employed the hands on approach and got involved in much of the day to day company business together with their employees. As a result, their company performance was much better than the SMEs headed by PhD holders (Fedaseyeu et al, 2018).

The Indonesian findings were corroborated by other studies done in Hong Kong. According to Tan (2014), surveys conducted with over 200 SMEs in Hong Kong illustrated that corporate governance was 'loose' among SMEs regardless of the presence of highly educated directors or owners. Bartholomeusz & Tanewski (2016) emphasized that many family owned businesses and SMEs do not maintain corporate records as well as adhere to corporate governance practices with the same rigor and discipline as publicly held businesses despite the fact that their owners and business leaders might be well known university graduates.

2.6.2 Role of the Owner on Company (SME) Performance

According to Florén and Tell (2012), the owner of the company is its heart and soul particularly in SMEs where the same owner plays multiple. Studies across the whole world are dominated by findings that emphasise and highlight the central role that owners of

enterprises of different sizes play. Florén and Tell (2012) are of the view that the roles that company owners play though complex, may be simplified to include the usual managerial functions like planning, organizing, leading, and controlling. Swift (2018), stresses that while it is an undisputed fact that owners are key to their firm's performance, their role is more pronounced, more crucial and much more needed in smaller companies as these rely directly on the owners almost on a day to day basis.

Dragomir and Pânzaru (2015), mentioned that studies in Romania found out that owners of SMEs play multiple functions in order to sustain and grow their companies. The same authors went on to say surveys with today's leading multinational companies like Alibaba, Apple, Microsoft etc have shown that their owners, Jack Ma, Steve Jobs, and Bill Gates respectively, played both leadership and administration roles in order to grow their companies to where they are today. Florén and Tell (2012) posits that company owners like Steve Jobs' main role for his Apple Company was his ability to create a vision of being the global leader in unique and quality products. Florén and Tell (2012) further highlight that Jobs' vision was not dominating sales through numbers but through differentiated products of very high quality. Today, products like iPhone, and other Apple related gadgets are second to none in terms of quality but remain the most sought after brands despite being very expensive. All this is because of the visionary role played by Jobs as the owner and founder of Apple Company.

In Africa owners of companies also play pivotal roles to ensure that their companies perform optimally. One of such roles according to Chidoko et al (2011) is the planning and organizing role. In studies done by Chidoko et al (2011), it was noted that leading African entrepreneur and businessman Aliko Dangote was both an excellent planner and organizer. Mr Dangote started his now Dangote Group from small business ventures that sold sugar and other basic food items. Chidoko et al (2011) mentioned that due to thorough planning and high levels of organization, the USD\$3,000 that Mr Aliko Dangote borrowed from his uncle, multiplied into the multi-billion dollars that the Dangote Group now possess. The company has expanded and diversified into several business that have penetrated into every commodity market. According to Chigoko et al (2011), owners that are able to plan and

organize effectively are more likely to witness reasonable growth to their enterprises while those that give leap service to these two important roles are likely to regress and die.

Zoephel (2011), brought out another dimension to the owner's role in a company namely; succession planning. According to the author, studies that were conducted with SMEs in African countries including Rwanda, Burundi, DRC, Uganda and Kenya proved that several companies that were once leading in their various industries particularly transport, retail and manufacturing have now been liquidated and no longer exist due to the incompetencies of the generations that took over from the original owners. Zoephel (2011), highlighted that business owners have a key role to play in ensuring that they put in place clear and thorough succession plans so that their departure (planned or unplanned) does not threaten the company with extinction. Studies by Zoephel (2011), revealed that 81% of SME businesses in the five countries mentioned above folded once the first generation of owners were gone, 17% liquidated upon the departure of the second generation while a mere 2% managed to survive beyond the second generation of ownership. These statistics illustrate the pivotal role that business owners play in terms of succession planning so that companies will continue to survive well after their departure.

Another important role played by owners in order to enhance performance is their ability to control and monitor the day to day operations of the company (Mkandawire, and Mulera, 2013). The two authors stressed that many SMEs have failed because their owners failed to control and monitor the use of resources. SMEs by nature have a thin capital base which calls for owners to be thorough in their monitoring and controlling of the little resources available (Mkandawire and Mulera, 2013). In a survey conducted by the two authors in Malawi, 65% of SMEs in Blantyre failed between 2010 and 2012 and had to auction their assets in order to settle acquired loans due to poor financial controls and lack of efficiency in the use of resources. In that regard, Mkandawire and Mulera, (2013) argue that it is part and parcel of every owners' responsibility to ensure that company resources are well controlled and monitored to prevent and/or minimize pilferage.

In Zimbabwe a number of successful business persons have exhibited and executed these key roles in the success of their companies. Businessman and entrepreneur Mr Mataranyika

of Nyaradzo Funeral Services Group is one such character. According to Mwakatuya (2021), Mr Mataranyika is a top level strategist who values thorough planning in order to ensure that visions become realities. The Nyaradzo CEO played a key role in the establishment and subsequent rise of the company from 2001 through the turbulent economic times experienced in Zimbabwe until the company became the reference point in funeral services industry. Mwakatuya (2021), highlighted that company owners have a key role in planning, monitoring and controlling the affairs of the company so that strategies do not go off rail in the course of their execution. Mr Mataranyika even went as far as doing some of the duties himself to ensure that all goes according to the initial plan. Many Zimbabweans remember Mr Maranyika driving a hearse carrying bodies of the likes Oliver Mtukudzi and Paul Chingoka which was in part a sign of humility but above all a commitment to his company's vision and plans (Mwakatuya, 2021).

Tshikomba M, (2018) brought out the aspect of instilling a good attitude to the staff as another key role that company owners play to ensure that their firms perform well and grow. In a study done by the author on Econet Wireless, it was highlighted that the owner of the company Mr Strive Masiyiwa always possess and always inspire himself and his staff a sense of good attitude towards set goals. According to Mr Masiyiwa as cited by Thshikomba (2018:16), "attitude determines your altitude. If you have a bad attitude, even if you are way up there, you will come crashing down..." In that regard, Thshikomba (2028) emphasizes that in the SMEs industry, good attitude is invaluable since the industry is riddled with upsets and drawbacks. It was common to see many giving up after experiencing difficulties which ultimately leads to business closure. With good attitude and patience, owners lead by example and instill in their staff a sense of resilience that takes the company to higher levels. Thshikomba (2028) added that the turbulent beginnings that Mr Masiyiwa faced in the early stages of establishing Econet failed to dampen his vision and plans because he exercised good attitude that is key to any firm's performance and survival.

2.6.3 Effects of Internal Controls on Company Performance

“An organization's internal controls are a set of policies and procedures used to ensure that transactions are processed correctly and in accordance with the entity's objectives, mission, and goals, (Nyakundi, Nyimeta, and Tinega, 2014:107). According to the Committee of Sponsoring Organization (COSO) as cited by Zhu and Song (2021), the goal of internal controls is to prevent and reduce corporate governance risk, management risk and operational risk which is not consistent with a firm's strategic objectives. Zhu and Song (2021), posit that a sound internal control system is the decisive factor for a firm's sustainability, particularly in times of crisis. Several studies have been done to establish the effects of internal controls on company performance and detailed below are some of the findings.

According to Kim Et al (2011), internal controls have a huge influence on the performance of the company as they assist a firm in achieving its strategic objectives. Kim et al (2011), further assert that the presence of internal controls must never be confined to big or multinational corporations but as a key success driver even to SMEs. In a study conducted in China by the authors, they found out that 47% of SMEs were having credible internal controls like an audit department, operating procedures, transaction verifications sections etc, while 53% had little or none existing controls. The performances of the two groups exhibited huge differences as those without were continuously failing to meet their targets and objectives a situation that was gradually dragging them to either reduction of business operations or closure of the whole company. Kim et al (2011), emphasized that internal controls provide SMEs and any firm with reasonable assurance regarding the achievement of their operational objectives through improved efficiency, effectiveness, accurate financial reports and ultimately guaranteed sustainability.

In another survey conducted on SMEs by Hoitash et al (2012) in Kunming, China, it was established that internal controls have a positive correlation with a firm's performance in that the better the internal controls the higher the firm's operational output. Hoitash et al (2012), stated that effective internal controls in SMEs act as safety valves against wastage of resources through malpractices such as over allocation, thefts and other forms of

pilferage. In the Kunming study, Hoitash et al (2012) found out that 78% of SMEs that did not possess any recognizable form of internal controls were always experiencing shortages in tools, finances and other valuable inventory. The other 22% which had effective internal controls like security checks, segregated financial transaction processes and other measures were experiencing negligible cases of inventory/asset losses.

Internal controls also save the company from losses due to litigations, poor share prices, poor public confidence etc. According to Douglas (2019), Enron was one of the largest corporations in the world until late 20th century. The company experienced a drastic turn of events due to poor internal controls. Douglas (2019:112) stated that,

A corrupt management attempted to hide weak financial performance by manipulating revenue recognition, valuation of assets on the balance sheet, and other financial reporting disclosures so that the company appeared to have significant growth. When this practice was uncovered, the owners of Enron stock lost \$40 billion as the stock price dropped from \$91 per share to less than \$1 per share. This failure could have been prevented had proper internal controls been in place.

In Africa several companies also confirm the importance and value of internal controls as a catalyst for positive corporate performance and sustainability. Internal controls assist in the prevention and subsequent detection of fraud in any company regardless of size (Business Insider South Africa, 2020). Failure to abide by internal controls usually lead to severe financial losses perpetrated from both inside and outside the company. According to the Business Insider South Africa (BISA) (2020) survey report, the South African business landscape witnessed huge fraudulent cases that were a result of lack of and presence of ineffective internal controls. In 2018 a company called VBS discovered that fraudulent activities had led to the company losing R2 Billion. This fraud was done through fictional deposits and withdrawals, unauthorized loans, underhand dealings, etc (BISA, 2020). Another South African company, Steinhoff, due to lack of internal controls, inflated its profits and assets by R250 Billion in 2019. Its former CEO also admitted to illegally accessing loans without following the laid down procedures (BISA, 2020). With the existence of efficient and credible internal controls, all these fraud scandals could have been prevented and detected early in order to prevent the incurred losses.

In Zimbabwe, the importance of internal controls were also noted especially in the prevention of corporate fraud. A survey by Tapfumanei in 2020 revealed that big companies as well as SMEs' sustainability was under threat as they were suffering huge financial losses due fraud as they did not have effective internal controls. According to Tapfumanei (2020), POSB lost ZW\$158 million in 2019 due to employee fraud within a single month. Lack of internal controls that segregated financial transaction processes led to an employee capitalizing on that loophole to defraud the bank.

A study by Mwanza (2014) in Zimbabwe involving 45 companies from different sectors established that between 2011 and 2013, 44% of the companies had experience more than five cases of fraud, 24% had experienced workplace fraud cases ranging between three to five while of 32% had experienced one to two cases. These cases involved financial losses of amounting to over US\$3 million which is a huge figure capable of severely affecting the companies' sustainability. SMEs and any company therefore, needs to possess effective internal controls covering the monitoring mechanisms, control activities, communication information, risk assessment and control environment. Once that is well in place, business performance is likely to be enhanced resulting in company growth and prolonged survival.

2.6.4 Ways of Improving Corporate Governance in SMEs

According to the Association for Chartered Certified Accountants (ACCA) (2015) report, while the world now sees corporate governance as an essential building block for big companies, that mantra's applicability to SMEs is questionable. ACCA (2015:3) goes on to say,

“The challenge for SMEs is that established corporate governance frameworks have been developed with large and listed companies primarily in mind. Such frameworks and codes may not reflect the characteristics of the SMEs, where owners may often be their managers as well, or where company ownership may be shared across family members.”

Even though corporate governance frameworks were configured with large corporates in mind, researches in Egypt by the Organisation for Economic Cooperation and Development OECD (2014) established that the same frameworks if applied to SMEs, are

a good vehicle for improved performance, growth and long term sustainability. The frameworks include some of the following pillars;

2.6.4.1 Company Board

The first thing that SMEs need to do as a way of improving corporate governance is to create a company board. ACCA (2015) states that a company board goes a long way in adding value to the running of SME business. “Bringing in external independent directors (including non-executive directors – NEDs) gives the SMEs access to a broader range of skills, experience and personal characteristics (ACCA 2015:6)”. Studies conducted in Malaysia, Indonesia and Philippine observed that a key step in the governance development of SMEs and unlisted companies is the inclusion of external directors on their boards as this helps them to establish wider contacts, increase expertise and afford themselves a more independent view than just being run by owners (ACCA, 2015). The inclusion of a company board was also noted in studies done in China and Japan by OECD (2014) as it realized that SMEs need to possess a board in order to be prepared to manage growth adequately in their evolution. According to OECD (2014), China and Japan findings;

“SMEs need assistance to keep up with the growth or else they will find it very difficult to succeed. Company boards are valuable in times of crisis when there is a need to have fresh ideas or a fresh way of handling different challenges that are arising due to expansion. In that regard, having a sound board would provide huge assistance or benefit to the firm.”

2.6.4.2 Company Managers

According to a survey conducted in Lebanon by the International Finance Corporation (IFP) (2011), senior managers are an essential part of SMEs governance structure because their quality directly affects the firm’s performance and ultimate wealth as the managers are the ones responsible for implementing the company’s strategic direction set by the board. The managers are also charged with the task of overseeing the daily operations of the company. In that regard, having the right managers to lead the company is a key element for any SMEs success and survival.

Findings by the IFP established that in the Lebanese SMEs sector, in the early stages of operation, SMEs were usually managed at family level mostly by owners. Because of this

situation, the decision-making authority is concentrated in the hands of the company's founder(s) and a selected number of close relatives, and the management structure may continue to be quite informal (IFP, 2011). As the business expands and grows however, in order to handle the complexity of the business and the more difficult day-to-day operations, a more formal management structure, a decentralized decision-making process, and a qualified management body become necessary (IFP 2011:48). As was realized in Lebanon, 67% of SMEs failed to cope with the growth of business and they eventually crumbled. 33% of the businesses that quickly adjusted their management in line with business growth enjoyed high operational performances and financial turnovers (IFP: 2011). The Lebanese study is a clear illustration that for SMEs to survive longer in business, they must ensure that their governance progresses and morphs in sync with the size of the business.

2.6.4.3 Internal Controls

One of the most important corporate governance practices that SMEs need to implement is the adoption of effective internal controls. A survey done on SMEs and family businesses in Kenya by Ngahu (2018), highlighted that the biggest let down on SMEs performance is the absence of or deliberate disregard of internal controls. “SMEs and family businesses suffer from financial and resource hemorrhage due to lack of basic controls to monitor and regulate their usage” (Ngahu 2018:7).

According Ngahu (2018), internal controls that are pivotal to business success should include the control environment, control procedures, risk assessment, information and communication as well as monitoring mechanisms. The Kenyan study established that once internal controls that adequately address the mentioned areas are put in place within a SME business, financial accountability and reporting improves, tighter monitoring of how resources are used is done, information regarding company affairs is handled carefully and confidence of all stakeholders is improved. The Kenyan survey further found out that 137 representing 91% of the 150 SMEs studied, had recorded net profits of between US\$70 000 and \$85 000 for successive years between 2015 and 2017 after they had introduced and strictly followed internal controls in their businesses (Ngahu:2018). The Kenyan study

shows how important internal controls are in SMEs and also how pivotal are they in ensuring that SMEs corporate governance practices are improved.

2.6.4.4 Succession Planning

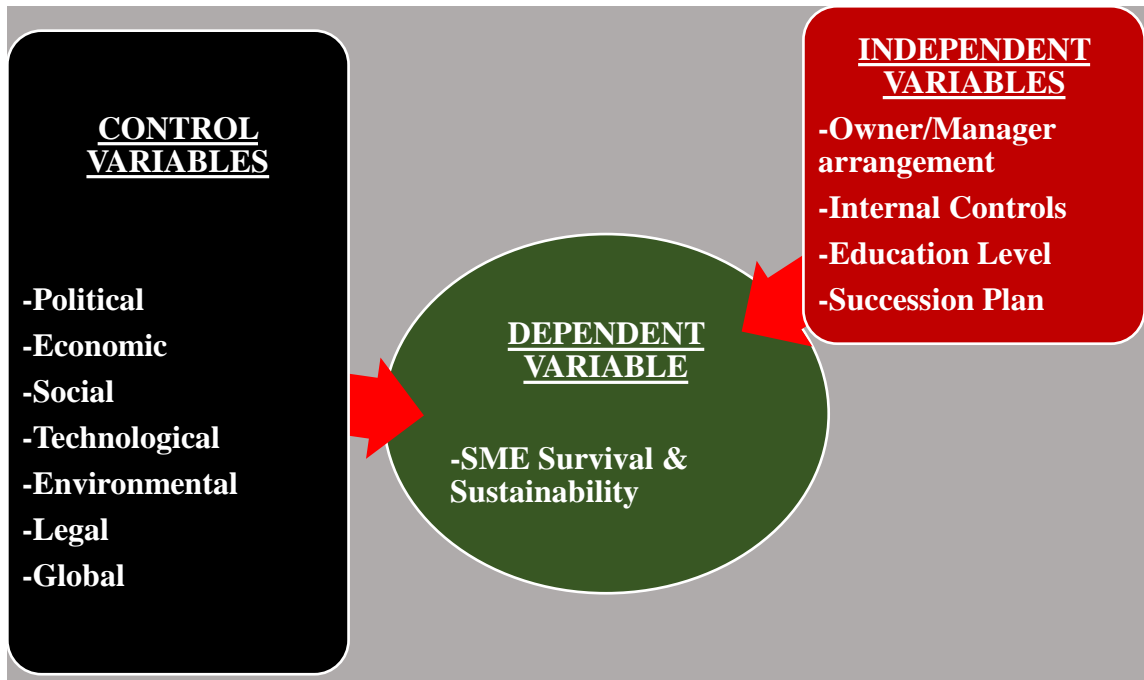
According to Abouzaid (2014), no governance issue can ever be discussed in a company without paying attention to succession planning for how succession is handled in a firm is a good pointer to its long term survival. A clear and credible succession plan for any company including SMEs, motivates both staff and other stakeholders which impacts positively on governance practices of that company. A study conducted in the Middle East and North America (MENA) region by Abouzaid (2014), found out that despite the importance of succession planning in SMEs, many businesses were delaying on the aspect of succession planning until the last minute thereby putting the whole company in crisis. Poor, delayed and total absence of succession planning breeds disunity and backbiting in top management something that undermine sound corporate governance in a company. According to Abouzaid (2014),

“Good succession planning requires an early start and an inclusive approach. As soon as a new CEO is in place, the process of selecting the successor should begin. Input from both the business side and the family (for SMEs) is critical to gaining buy-in, building consensus and improving corporate governance. Overlooking such steps increases the risk of divisiveness, leading to painful conflicts and disagreements over the future direction of the company.”

The Abouzaid (2014), study in Lebanon further found out that the Wadi Group of Lebanon took seriously the issue of succession planning as they knew that the governance and survivability of the company rested on how they handled the matter. The company then ensured that they educated younger generations about the importance of corporate governance very early so that they were able to take up leadership positions and mature gradually in those positions. Today the Wadi Group is a model for good governance among SMEs in Lebanon and the MENA region and is now managed by the third generation of owners something that is rare among SMEs in general and family business in particular (Abouzaid, 2014). The MENA case study therefore, highlights the key role and influence that succession planning has in enhancing good corporate governance and sustainability in a company.

2.7 The SMEs Sustainability Framework

Figure 5: The SMEs Sustainability Framework



Source: Own Creation

The SMEs Sustainability Framework (SMESF) illustrates the nexus among three key variables the namely; the independent variables, control variables and the dependent variable. The independent variables comprise of the corporate governance pillars that are pivotal in determining the survival and sustainability of SMEs. A clear and effective owner-manager set-up, availability of effective internal controls, a healthy educational background of those running the business and a transparent succession plan are the key independent variable that have a direct effect on the dependent variable i.e; SME survival and sustainability. Any disregard on one or all of these key variables put the sustainability of the SMEs in danger of extinction.

On the other hand, the control variables depict the operating environment within which the SMEs exist. These control variables have both a direct and indirect effect on the independent variables and the dependent variable. So strong are the control variables that any change on them compels changes on the independent variables and ultimately on the dependent variable. As illustrate by the SMESF, for SMEs to survive and have a sustainable

future, it is paramount that an equilibrium be created between the independent and the control variables. A disregard of variables such as the political, economic, social, technological etc, puts the survival and sustainability of the company in danger.

The SMEs Sustainability Framework was useful in this study as it allowed the researcher to examine and analyse in detail whether corporate governance practices were being implemented by SMEs while being conscious of the environment in which they were existing and operating.

2.8 Chapter Summary

The chapter reviewed literature related to study. The Chapter reviewed conceptual framework and theoretical framework. Principles of corporate governance as well as a review of empirical evidence in line with the research objectives were also covered in the Chapter.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter covered the research methodology focusing on the research philosophy, research design to be used in the study, determination of the population and sample size, sampling procedures, data gathering instruments as well as the ethical considerations that were used throughout the study.

3.1 Research Philosophy

Research philosophies are beliefs and assumptions about how one views the world and determines the research strategy and methods that would be used in a research (Cohen and Manion, 2009). The research philosophy is chosen depending on the relationship between how one views the nature of reality (ontology) and the means to acquire knowledge (epistemology). Ontological assumptions are based on whether reality is objective or subjective (feelings and attitudes of people), whether there is a single reality (objectivism) or multiple realities (subjectivism). Finding the most effective method to research a phenomenon is how knowledge is created, according to epistemological presumptions. These two assumptions are the basis that constitute a research philosophy or research paradigm. There are mainly two philosophies that are used in every research namely; positivism and interpretivism.

According to positivism, information is reliable if it is acquired through testing a hypothesis and is collected objectively. The philosophy is based on cause and effect relationships and is derived from the natural sciences. Positivism relies on quantitative techniques such as experiments, surveys, and statistical analysis. It also calls for the collection of large samples of data, which is done in an organized manner. On the other hand, interpretivism, which

sprang from social sciences, maintains that knowledge shouldn't be generalized because it is context-specific and tries to give meaning to people's activities (Kothari, 2014). Thus, meaning of phenomena may be interpreted differently depending on the meaning attached by the individuals through their experiences and feelings. Interpretivism emphasises that reality is relative or contextual and in that regard, the research paradigm is associated with a qualitative approach.

3.1.1 Positivism

Positivism, according to Kothari (2014), claims that a single, objective reality exists that can be impartially observed and measured using standardized tools. The researchers view themselves as unbiased recorders in the positivist paradigm. Under identical conditions, different researchers using the same tools ought to come to the same conclusions (Kothari, 2014). The researcher is of the opinion that the positivism philosophy was of great help during the study since objectivity and elimination of bias was key in determining the significance of corporate governance in Magaba SMEs industry. In addition, since the study was largely quantitative and used a fairly large sample, the positivism philosophy managed to assist the researcher in fully using instruments such as the questionnaire.

3.2 Research Design

According to Parton, (2012)), a research design is a plan to determine what you are going to observe and analyse, why and how. According to Kothari (2014), the plan and structure of the study used to gather data to answer the research questions and examine the questions of interest in a way that allows for valid inferences is known as the research design. Bamberger (2010) emphasizes that findings from a subject can be discounted as guesswork in the absence of a systematic and planned method of knowledge production. This study will use the descriptive survey research design.

Kothari (2014), defines descriptive survey method as a method that simply looks with intense accuracy at the phenomenon of the moment and then describes precisely what the researcher sees. Parton, (2012) says that a descriptive survey method focuses on the

systematic description or exposure of the salient aspects of a phenomenon, object or situation with a focus on the patterns that emerge.

The goal of the descriptive survey method is to gather data at a specific time in order to describe the nature of the current conditions, identify benchmarks by which the current conditions can be compared, and identify relationships between particular events (Cohen and Manion, 2009). Descriptive survey method is ideal for data collection using observations, interviews and questionnaires.

The researcher used the descriptive survey research design as it has the capability of producing accurate and representative data about the area to be studied. Since the study was conducted under real human life experiences, the design allowed the researcher to study the processes, procedures, events and experiences of the SMEs operating in Magaba Industry. Due to economic constraints on the researcher, the design was relatively cheaper as compared to other designs and allowed an extensive investigation at lower costs.

3.3 Target Population

Parton (2012), describes a population as the aggregate of all cases that conform to some designated set of specifications. Bamberger (2010), also defines population as the people who are a focus of a study. The target population in this study refers to approximately 523 registered SMEs in Magaba Industry.

3.4 Sampling Techniques

Kothari (2014) defines sampling as the process of selecting a sub-group from a large group and treat the selected members as representatives of the wider population. According to Cohen and Manion (2009), a sample is a smaller group or subset of the population from which data is gathered, and the information obtained from this subset is indicative of the entire population. Parton, (2012) further asserts that a sample is usually selected to be representative of that population since those included in the sample are chosen as a cross section of the larger group. Being part of the whole population, a sample must share the same characteristics of the group from which it is drawn. The essential requirement of a

sample is that it should be representative of the population or universe from which it is taken. For the purpose of this study the researcher used simple random sampling.

3.4.1 Simple Random Sampling

Kothari (2014) defines simple random sampling as a sampling method in which every member of the population is equally likely to be chosen to be a member of a sample. The researcher used this method to select respondents by giving each business unit in Magaba Industry a number written on a slip of paper and placed in a container. A sample was selected by picking a piece of paper from the box in a random manner until the required sample size of 180 was obtained. Every enterprise out of the total that is operating in Magaba was therefore, accorded an equal and independent chance of being selected in the sample. In terms of representativeness, the combined sample for the SMEs selected through simple random sampling was 34.42% as shown below:

Table 1: Simple random sample

Business Category	Estimated Population	Number Sampled	Representativeness in %
Building Material	191	65	34%
Irrigation/Water Equipment	64	36	56.3%
Farming Equipment	112	36	32.1%
Fencing Equipment	74	36	48.7%
Other	82	36	44%
Total	523	180	34.42%

Source: Primary Data

3.4.2 Purposive Non-Random Sampling

Purposive sampling is a type of non-probability sampling where units to be investigated are selected based on the judgment of the researcher (Kothari, 2014). The goal of purposive

sampling was to focus on particular characteristics of the leading successful SMEs that are doing well in Magaba Industry. The research targeted these entrepreneurs as the researcher believed that they had gone through the turbulences associated with starting up, running and witnessing relative businesses growth. As shown on Table 2 below, a total of 25 entrepreneurs were chosen with five respondents from each class being purposively selected for them to respond to the study questions through interviews.

Table 2: Non-random sample of respondents

Business Category	Number of respondents chosen
Building Material	5
Irrigation/Water Equipment	5
Farming Equipment	5
Fencing Equipment	5
Others	5
TOTAL	25

Source: Primary Data

NB: The total study sample used during the study was 205 which translate to a 39.2% in term of sample representativeness.

3.5 Research Instruments

Kreire and Morgan (1990), define an instrument as an implement or a piece of apparatus used for a particular purpose especially for scientific work. In other words an instrument is a device used in research to collect data. In this study, the questionnaire and the interview methods were used.

3.5.1 Questionnaire

According to Bamberger (2010), the first questionnaire was designed by Sir Francis Galton in 1883. It consists of a systematically crafted list of questions, to which the respondents

must provide logical responses to the best of their ability, (Annum, 2017). Kothari (2014), define a questionnaire as a form prepared and distributed to secure responses to certain questions. In general, these questions are factual and intended to learn about circumstances or practices that respondents are assumed to be aware of or to elicit group opinions and attitudes, (Kothari *ibid*). The questionnaires included both close and open ended questions. Closed-ended questions are those that required the respondent to choose from a predetermined set of responses or scale points. The advantages of such questions are that, they help participants to make quick decisions and the researcher to code information for subsequent analysis. Open-ended questions allow respondents to respond in their own words.

In this study, the researcher distributed a total of 180 questionnaires by hand to all the selected respondents in the mentioned categories. This was done in order to explain to every respondent what each question demands as well as the requirements of the study. The questionnaires were meant to obtain information on several topical issues regarding the governance and operations of SMEs. Each respondent was allowed to complete the questionnaire on their own and at the time convenient to them. The questionnaires were collected 48hrs after delivery.

3.5.1.1 Merits and Demerits of Using a Questionnaire as in Instrument in this Study

For the purpose of this study, the questionnaires were used as they are not expensive to administer to a large number of people especially in an area such as Magaba Industry. The use of the questionnaire also enabled the researcher to incur relatively low distribution expenses in view of the size of the area which was under study. The questionnaires further allowed respondents to be anonymous thereby increasing the accuracy of the data collected as they were able to answer critical and sensitive questions truthfully. Questionnaires were also used as they are free from bias and influence of the interviewer. Through the use of questionnaires, there was consistency in questioning as same inquiry forms with the same questions were administered to the entire sample thereby improving reliability. Questionnaires also provided a verifiable and permanent record as the respondents responded to written material.

Questionnaires have some disadvantages in any study. During this research, questionnaires provided no room for clarifying ambiguities. In that regard, there was a possibility of respondents misinterpreting certain questions leading to ambiguous responses. To counter this, the researcher structured the questionnaires using simple and straight forward language and in such a way that they were easy to understand. There was also a likelihood that some respondents could be illiterate to the extent of failing to understand and respond to questions. To counter this disadvantage, the interview method was used to compliment the questionnaires.

3.5.2 Interviews

The interview method was used to supplement the questionnaire in an attempt to ensure validity of the findings. An interview is a face-to-face conversation in which the interviewer probes the respondents for information relevant to the study's main question (Cooper and Schindler 2008). As already highlighted above, the researcher conducted face to face interviews with 25 random purposely chosen respondents comprising individuals who are leading well performing SME business units. These were interviewed for them to proffer their knowledge and experiences in the not-so-smooth SMEs industry.

Face to face discussions had the advantage of allowing the interviewer and the respondents to pursue the topic in depth and this enabled the interviewees a chance to give broad and well-reasoned replies. The researcher avoided leading questions and bias so as to obtain valid responses.

3.5.2.1 Merits and Demerits of an Interview

According to Cooper and Schindler (2008), the interview method has room for the collection of supplementary information and has a high response rate since all the respondents can be reached and interviewed. Interviews also provided immediate feedback and allowed the researcher to follow up leads, thus obtaining more data and greater clarity. In addition, non-verbal actions were observed which helped the researcher to be a more effective communicator by reading non-verbal cues.

The interview has its demerits in that it has a high financial cost associated with travelling and engaging or hiring interviewers. To minimise the costs, the researcher personally carried out the interviews during the study. Another weakness of the interview is that respondents may not have the time to take up the interviews due various personal commitments. The researcher made pre-arrangements with the respondents to avert this likelihood.

3.6 Data Collection Procedures

3.6.1 Questionnaires

The researcher distributed the questionnaires by hand in order to control on who responds to them and to clearly explain the requirements of the study. Respondents were allowed to complete their questionnaires independently at their own convenient time and the completed questionnaires were collected after two days. Each questionnaire was also attached with a covering letter with clear guidelines on how to tackle the questions.

3.6.2 Interviews

The researcher conducted 25 face to face interviews with some elements of the sample. Interview schedules were drafted and the interviews conducted as agreed between the researcher and the respondents. The interviewees were drawn well performing and leading entrepreneurs within Magaba SMEs industry. During the interviews, the researcher used a smartphone to record the proceedings for future reference.

3.7 Validity and Reliability/Pilot Testing

According to Parton (2012), validity refers to accurate conclusion(s) that are drawn from the data. Bamberger (2010), states that reliability refers to the ability of an instrument to produce the same result each time it is administered. During this study, a number of steps were taken to ensure that the findings of the study are valid and reliable. To enhance validity, the researcher conducted a pilot study using 15 questionnaires. This enabled the researcher to add new questions as well as discard and rephrase inappropriate questionnaire items. The researcher also gave the proposed questionnaire questions to the project supervisor for scrutiny and other necessary amendments to be made. The research

instruments were pre-tested through a peer review before the actual data collection to enhance reliability. Experienced researchers were also given the instruments to check on the logic and structure of questions and then gave feedbacks for necessary modifications to be made.

3.8 Data Presentation, Analysis and Interpretation of Results

After collecting the completed questionnaires, the data was manually coded into the tally system. This enabled the researcher to have the total statistics of collected data which was then tabulated. A statistical Package for Social Sciences (SPSS) was used during this study in order to analyse data and interpret results in a more comprehensive manner. Data was presented done in the form of pie charts, graphs and tables for easy understanding. The data presented on tables and charts was accompanied by a detailed narration and descriptive analysis of the information presented. This was done to bring completeness to the results in order to make correct and reliable conclusions which were used as a basis for the recommendations.

Qualitative data analysis was applied on data from interviews to complement the quantitative data analysis. The researcher used summative content analysis which according to Krippendorff (2004), is defined as a research method for drawing conclusions about the context of the use of texts or other meaningful material that are both valid and repeatable.

3.9 Ethical Consideration

Each research process is confronted with an ethical question mainly related to rights to privacy or confidentiality. In this study the researcher paid attention to different considerations according to different individuals. Some of the considerations include, consent of the respondent, privacy, confidentiality, deception and ensuring that the research is mindful of sensitive issues based on culture, social and political matters. Sensitive information that personally affected the respondents was avoided. In addition, the study was designed in such a way that a respondent would not suffer physical harm, discomfort or humiliation.

3.10 Chapter Summary

This Chapter looked at the research philosophy and the research design used in the study. The research design that guided this study was the descriptive survey design and a target population comprising the entrepreneurs in Magaba SMEs industry made up the sample used in the study. Simple random and purposive sampling techniques were used to select the sample. Validity and reliability issues were also covered through pilot testing. Ethical considerations that guided the research were also dealt with in the Chapter.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presented, analysed and interpreted the data collected regarding the significance of corporate governance in SMEs in Magaba SMEs Industry in Mbare, Harare. The data was collected through face to face interviews and questionnaires distributed in the study area. The researcher used Statistical Packages for Social Sciences (SPSS) to analyse data and the data was presented using statistical tools that included tables, graphs and charts.

4.1 Response Rate

The data was collected from a sample size of 205 entrepreneurs using face to face interviews and questionnaires.

4.1.1 Questionnaire Response rate

Table 3 below shows the response rate of the respondents on the questionnaires that were distributed.

Table 3: Questionnaire Response Rate

	Frequency	Percentage (%)
Total number distributed	180	100%
Total Number returned	172	95.6%
Returned fully answered	169	93.9%

Source: Primary Data

Table 3 above shows that 180 questionnaires were distributed. 172 were successfully completed and returned, which translate to a respondent apathy of 08. The researcher inferred that either the 08 could have been lost or the respondents did not bother to return them. From the returned 172 questionnaires, 169 were properly completed indicating a 95.6% response rate whilst 2 were partially answered remaining one was spoiled and considered as unusable.

The high response rate of 95.6% is attributed to a number of factors. The researcher made a lot of effort in making several follow ups on the questionnaires which the researcher had personally handed over to the respondents. Many participating individuals showed interest and enthusiasm and had to dedicate their time in contributing to the success of the research. The researcher also used simple language which the respondents found easy to understand in responding to the questionnaire. As shown above, a very few individuals either failed to respond to the questionnaires or did not manage to complete the questions. This can be attributed to lack of interest, inadequate time or bad attitude towards the research.

4.1.2 Face to face interviews schedule

Face to face interviews were carried out among different business people who deal in a variety of products like building material, irrigation/water equipment, farming equipment, fencing equipment and other products that did not fit in any of the specific categories mentioned. Table 4 below illustrates the planned interview schedule.

Table 4: Face to face interviews schedule

	Frequency	Percentage (%)
Scheduled interviews	25	100%
Interviews conducted	24	96%
Cancelled interviews	1	4%

Source: Primary Data

As shown in the Table 4 above, 25 interviews were scheduled with the targeted respondents and interview appointments were made. However, from the scheduled interviews, the

researcher managed to conduct 24 interviews due to the fact that one interviewee failed to fulfil the interview due to commitments beyond his control. This meant that 96% of the scheduled interviews were successful and only 45 were not. This high success rate could be attributed to the fact that the researcher managed to secure the presents of almost all the respondents since they work in the same locality which minimised distant movements. The researcher also made appointments with respondents and scheduled the interviews at their most convenient timings which did not affect their daily routine.

4.2 Demographic data

4.2.1 Distribution of Respondents by Sex

Table 5: Distribution of Respondents by Sex

Sex	Number of respondents	Percentage
Females	31	16 %
Males	162	84 %
Total	193	100 %

Source: Primary Data

Table 5 shows that 193 respondents successfully took part in the study either by answering questionnaires (169) or through face to face interviews (24). The table shows males were the majority as they constituted 84% while females constituted 16% of the total respondents. From these figures, it can be concluded that in the area under study, males make up the majority of the entrepreneurs and/or SMEs. These statistics confirms the established fact that males dominate when it comes to employment and entrepreneurial opportunities. Another contributing factor is that the nature of business in the area of study is largely blue-collar and that tends to discourage women participation.

4.2.2 Distribution of Respondents by Age

Table 6: Distribution of respondents by age

Age	Frequency	Percentage
18 to 30	16	8.3 %
31 to 40	62	32.1 %
41 to 50	78	40.4 %
51 to 60	23	11.9 %
Above 60	14	7.3 %
Total	193	100%

Source: Primary data

Table 6 shows that 40.4% of the respondents are aged between 41 and 50 years. 32.2% of the respondents are in the 31 to 40 age bracket. From the data gathered, it was established that 7.3% of the respondents were those aged above 60 years. The above statistics tallies with what was established by Abouzaid Sanaad (2014), in the MENA region study that found out that entrepreneurship activities within an individual are at their prime beginning from the mid-30s to late 50 years of age. This age category will usually be strong and able bodied to the extent that they would be focused on fulfilling their dreams and desires. This study also established that the nature of business in Magaba SMEs Industry is rigorous, heavy and tiresome by nature which called for those involved to be strong mentally and physically, hence the domination of the age categories between 31 and 60 years.

4.3 Respondents by duration (age) of business

Table 7: Respondents by duration (age) of business

Business duration	Number of respondents	Percentage
Less than one year	55	28.5%
Up to 2 years	83	43%
Up to 3 years	23	12%
Up to 4 years	18	9.3%
5 or more years	14	7.2%
Total	193	100%

Source: Primary Data

Table 7 above illustrates the time and age of the businesses that the respondents were running. From the statistics shown above, 83 respondents constituting 43% of the total number that participated in the study indicated that their SMEs were two years old or less. A further 55 (28.5%) revealed that their businesses were less than a year old. Cumulatively, this meant that 71.5% of the respondents had been running their businesses for a maximum of two years. The results of this study confirms what the SEDCO surveys of 2014 and 2019 established regarding the very short durations that SMEs were operating before folding into oblivion. The duration of business operation was regarded as very important during the study as it gave pointers to the existence or absence of good corporate governance practices in the companies concerned.

4.4 Assessment of Owners' Educational background

4.4.1 Respondents by Type of Business

Table 8: Respondents by type of Business

Type of Business	Number of respondents	Percentage
Building Material	63	32.6%
Irrigation/water equipment	31	16.1%
Farming equipment	68	35.2%
Fencing equipment	14	7.3%
Other	17	8.8%
Total	193	100%

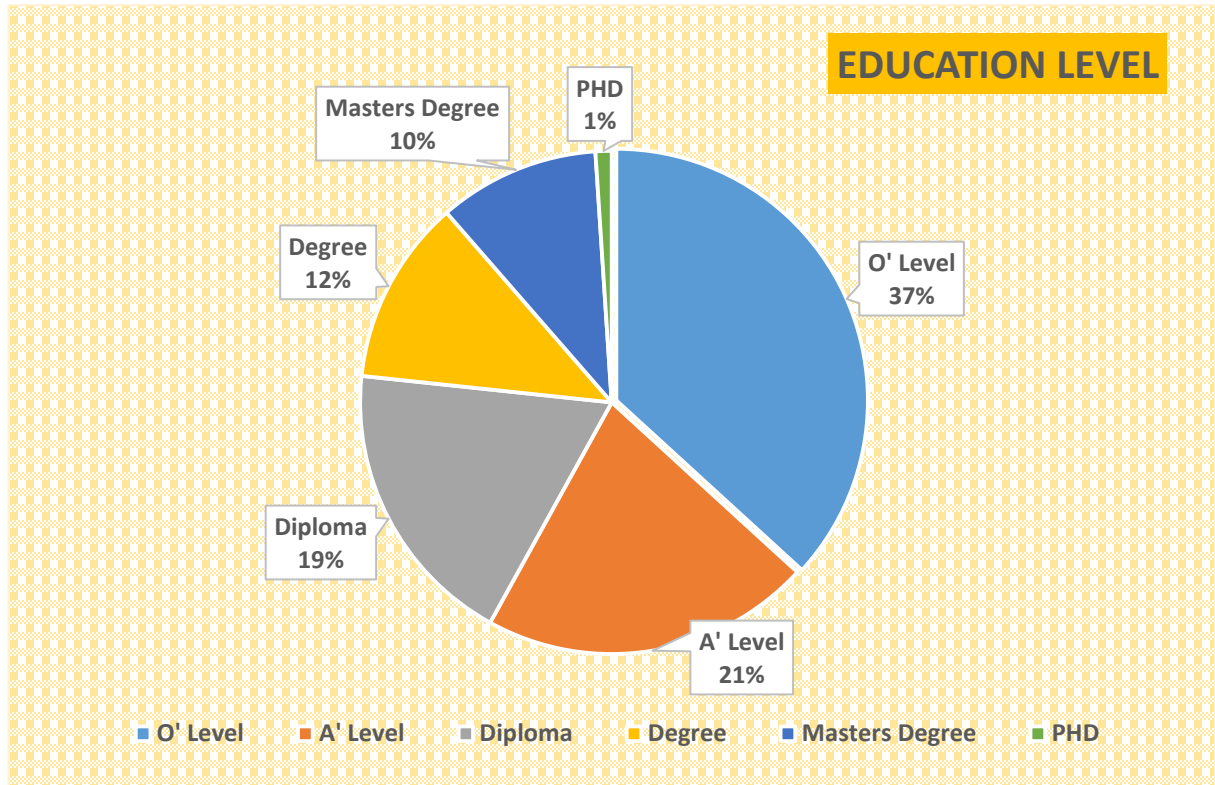
Source: Primary Data

Table 8 shows the composition of the respondents according to the type of business or products they were running and/or producing. The table confirms that the Magaba SMEs industry houses hugely diversified businesses units. The most dominant businesses/products are found in the farming and building material category as these constituted 35.2% and 32.6% of the total respondents. Irrigation equipment and other products like electricals, solar related products, and several other domestic utensils were also found to be popular in the area of study. The above statistics were key factors during the study as they gave insights into the business strategies of the companies in the area. According to Chidamoyo and Dumbu (2012), lack of good corporate governance in SMEs creates a strategy vacuum that results in uniform products/services being provided at the same location/market leading uneconomically low prices. The homogeneous nature of products in the area of study illustrates a lack of environmental analysis and a

corresponding strategy by the SMEs. With good governance, such poor business strategies could be avoided.

4.4.2 Respondents by education level

Figure 6: Respondents by education level



Source: Primary Data

Figure 6 above shows the statistics of the educational levels of the owner-managers of the SMEs in Magaba SMEs Industry. As shown above, 37% of the total respondents have O' Level as their highest qualification while 21% have A' Level. This gives a cumulative percentage of 58% as being constituted by businessmen/women who never experienced tertiary level education. A total 19%, 12% and 10% of the respondents possessed Diplomas, Degrees and masters' Degrees respectively. Only 2 people representing 1% of the respondents had PHDs. These statistics were very valuable during the study as they informed the researcher about the capabilities of the respondents in as far as understanding and practicing corporate governance is concerned. According to Ting et al (2015), complex

business decisions require company management with a healthy educational background. The low presence of tertiary level education among entrepreneurs in Magaba is a clear red flag on the possible absence of sound corporate governance practices in the area. Tertiary education empowers, broadens and nurtures the capabilities of individuals before they venture into business. The sustainability and performance of any business is largely influenced by the education level of those running the business. The ability to appreciate global business developments calls for one to possess a healthy educational background. As already mentioned by Gombarume and Mavhundutse (2014), 73% of SMEs in Chitungwiza folded between 2009 and 2011 as their owner-mangers had no recognizable tertiary level education.

4.4.3 Respondents according to relevance of educational qualification to business type

Table 9: Respondents according to relevance of educational qualification to business type

Relevance of Education to Business	Number of respondents	Percentage
Yes	21	11.9%
No	107	54.4%
Not Sure	65	33.7%
Total	193	100%

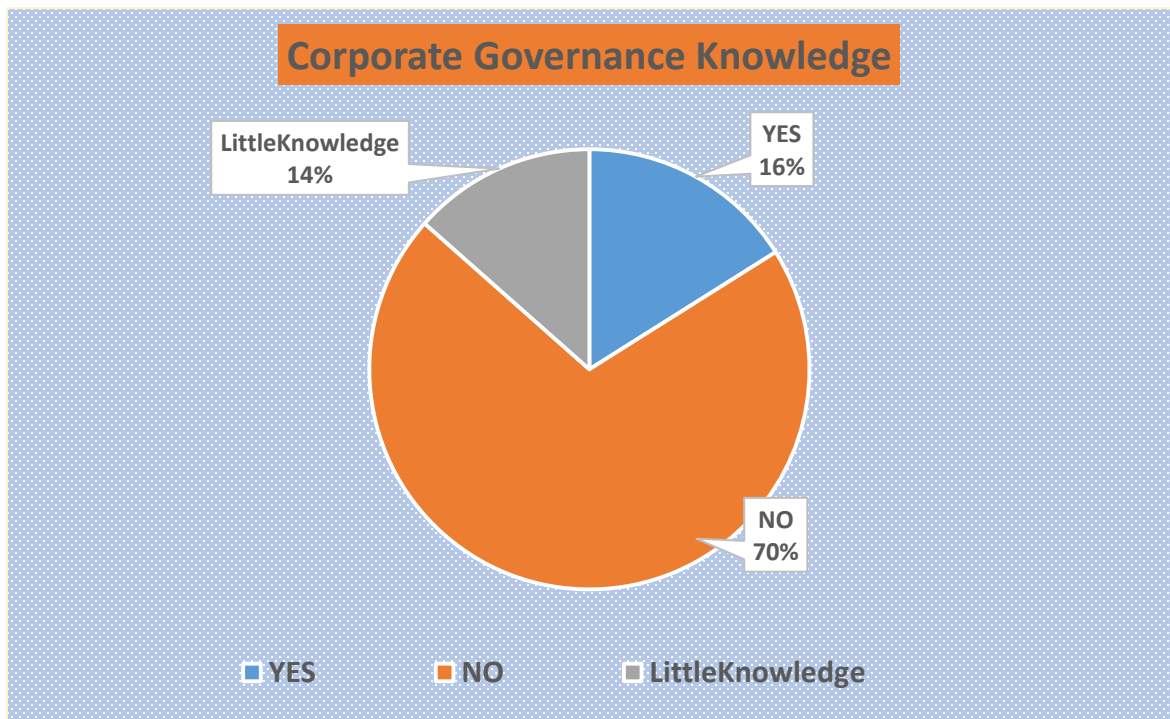
Source: Primary Data

The table above shows statistics of the relevance of the respondents' educational qualifications to the businesses they were running in the area of study. The results from the

respondents show that 107 respondents representing 54.4%, had qualifications that were not related to the type of business they were doing. 11.9% confirmed that their qualification were in line with the type of business that they were running while 33.7% were not sure of the nexus between what they learnt and their type of business. From these statistics, it is evident that 88.1% of the respondents were in their business by convenience and not by design as they had no educational foundations that are related to their line of business. The situation in Magaba SMEs industry are a complete opposite of what Abouzaid Sanaad (2014) recommended in the MENA region. After a survey, the author noted that a discord between education and type of business among SMEs was a catalyst for failure which made him to recommend that for sustainability and growth in SMEs, the areas of educational specialty must be related to the nature of business that an individual engages in.

4.4.4 Respondents according knowledge on corporate governance

Figure 7: Respondents according knowledge on corporate governance



Source: Primary Data

Figure 7 show statistics of respondents according to their knowledge of corporate governance. From the established data, 70% of the respondents professed total ignorance

of what corporate governance is all about. 14% stated that they had little knowledge regarding corporate governance and only 16% stated that they had good knowledge on the subject. The above statistics show that a total of 84% of the respondents were not fully aware of what corporate governance is and how important it is in business. One respondent during interviews mentioned that

“As for me I went as far as A’ Level at school and I never heard anything related to corporate governance. If you move around this industry, you will get one or two that have that knowledge. What we are after in here is just to ensure that we sell our products feed our families and hope to increase our stock otherwise issues of corporate governance are secondary.”

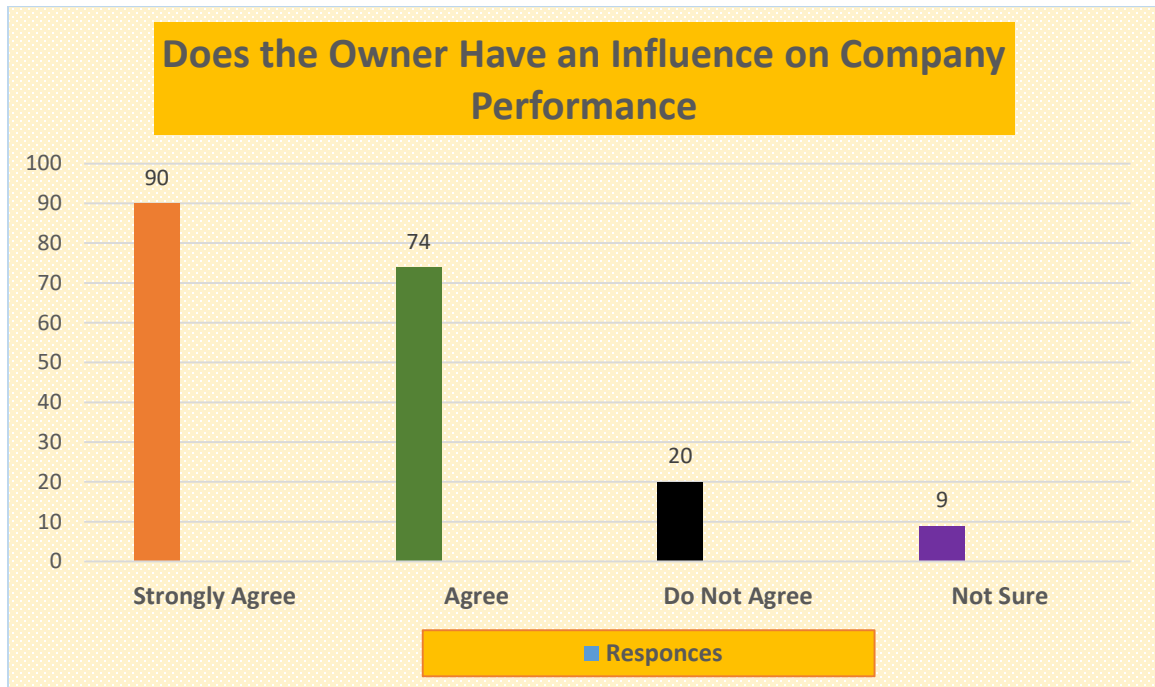
According to Abouzaid Sanaad (2014), for family and SMEs to perform and prosper there is a need for owner-managers or any of those playing managerial roles to be conversant with good knowledge about corporate governance. That way, basic corporate governance practices such as internal controls, accountability and strategic planning will be put into effect. The above statistics were key in the study as they gave pointers on what is likely to be causing sustainability challenges to the SMEs in Magaba SMEs Industry.

4.5 Role of the Owner on Company performance

The study sought to establish from the respondents whether they understand the effect and influence that the owner of a business has on company performance.

4.5.1 Respondents according to whether company owner has an influence on company performance

Figure 8: Respondents according to whether company owner has an influence on company performance



Source: Primary Data

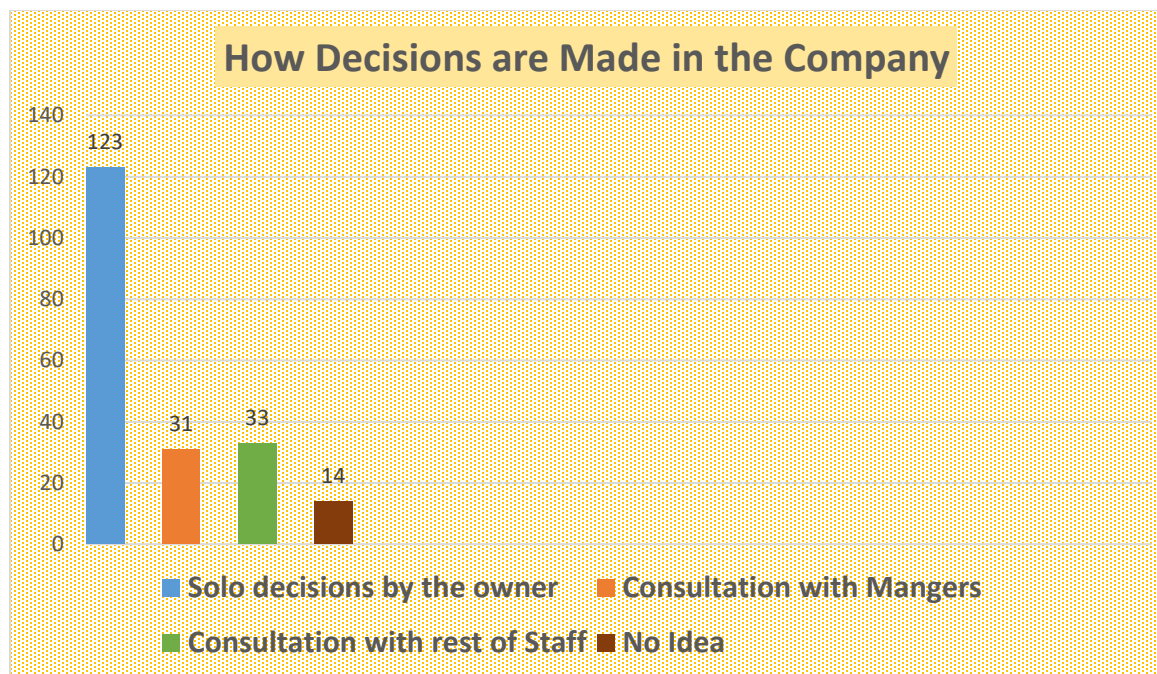
Figure 8 above illustrates the statistics the respondents' view on whether the owner of a company has an influence on the performance of the firm. From the established evidence shown above, 90 and 74 respondents constituting 85% of the total respondents either strongly agreed or agreed that the owner of the company plays a pivotal role on the performance of the company. Only 20 respondents (10.4%) believed that the owner of the company has no influence on the performance of the company but the board. During interviews one responded argued that

“The owner of the company is the determining factor of where the company is going and how it will be governed. Once the owner allows a competent company board to run the company, his/her influence becomes negligible. For me once a company is registered, it should be divorced from the owner and run independently by a competent board for it to perform. I have seen companies whose owners died or retired a very long time ago but their companies are still viable and growing.”

These statistics confirm that the majority of SMEs in Magaba are aware of the central role that company owners play in determining the performance and sustainability of the company. This data was key during the study as it became clear that once SMEs appreciate the significant role of owners, it gives them the clue on where good corporate governance should be initiated and promoted. The ADB (2016), pointed out that in most Asian countries, the turning point for SMEs was when they managed to identify the importance of company owners in as far as promoting good governance is concerned.

4.5.2 Respondents according to how decisions are made in the company

Figure 9: Respondents according to how decisions are made in the company



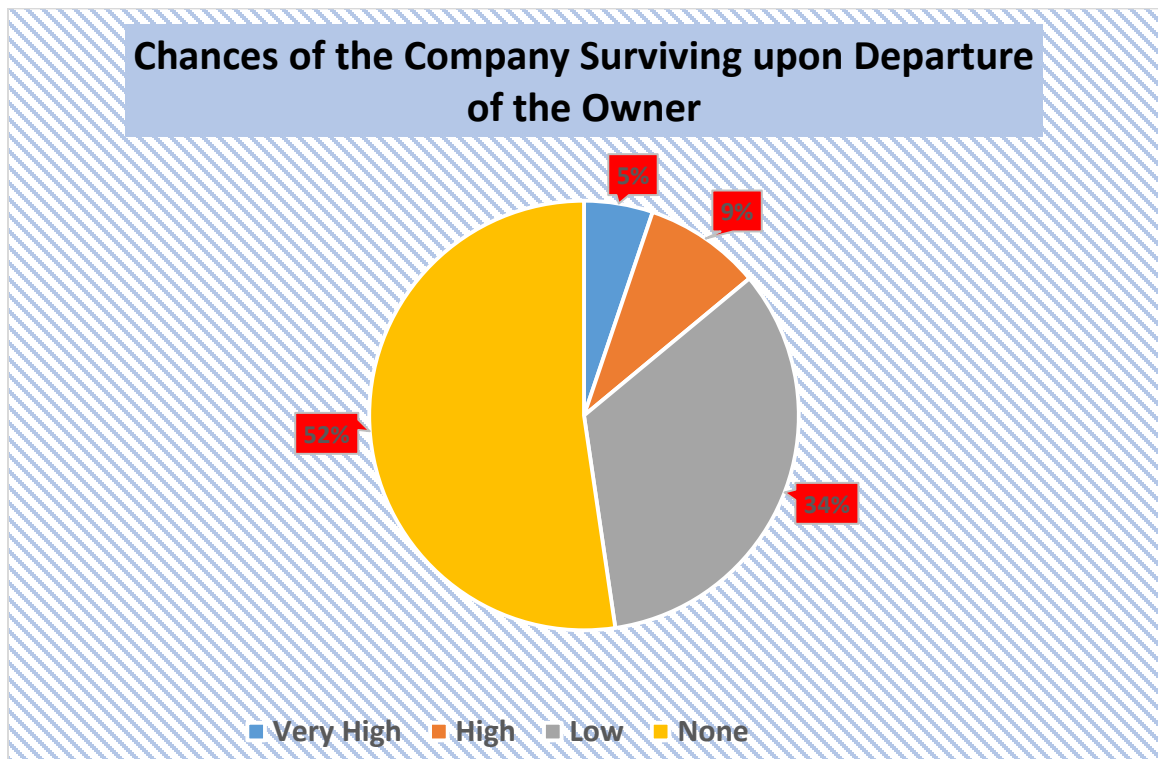
Source: Primary Data

Decision making is one of the most important attributes that an effective leader must possess. According to Bartholomeusz and Tanewski (2016), good corporate governance is a direct product of good decision making. As shown on Figure 9, 123 SMEs constituting 67.7% of the total respondents indicated that in the area of study, owner-managers were taking unilateral decisions. Very few of the made consultations with either the managers or members of staff. These statistics allowed the researcher to have a better understanding of the genesis of poor corporate governance practices. Bartholomeusz and Tanewski

(2016) emphasised that there is a positive correlation between decision making and corporate governance in that the more effective decisions are made within a firm, corporate governance naturally improves.

4.5.3 Respondents perceptions regarding future of the company upon departure of the owner

Figure 10: Respondents perceptions regarding future of the company upon departure of the owner



Source: Primary Data

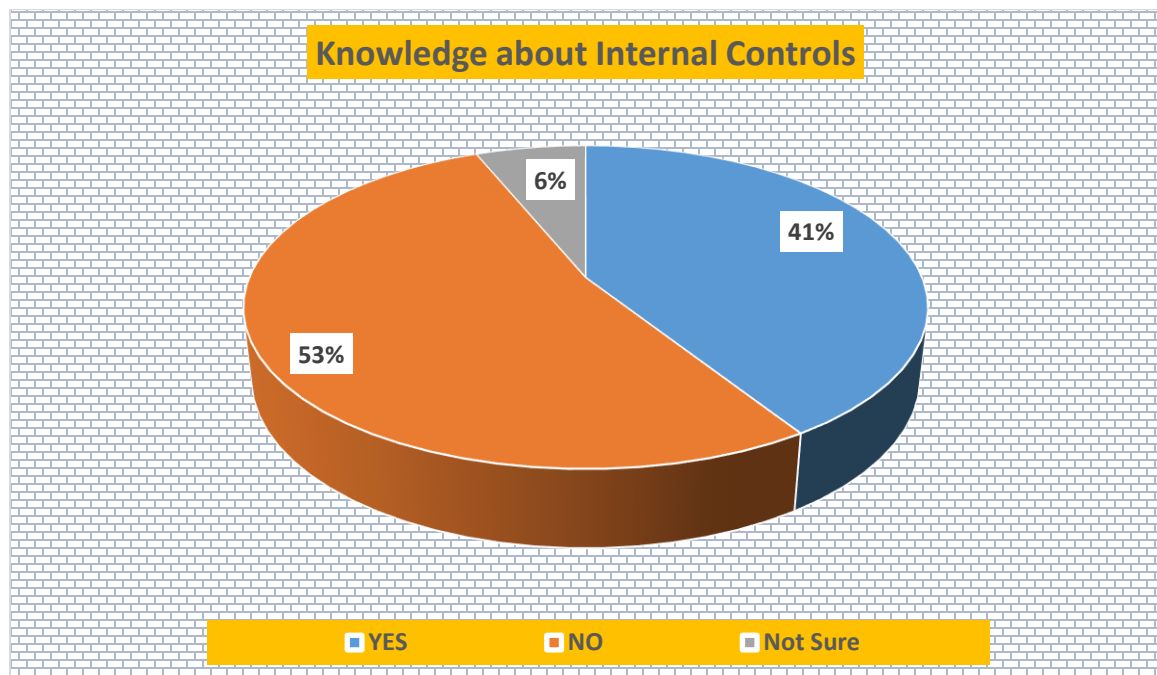
Figure 10 illustrates the respondents' perceptions regarding the survival chances of the company. Shown above, 52% were of the view that once the owner of the company departs, there are no chances of the company surviving. Another 34% believe that the chances of the company surviving are very low. This means that a combined figure of 86% do not have the confidence that the company can continue to operate once the owner is gone. Only 5% had a strong belief that the absence of the owner will not affect the company survival. These statistics explain the type of governance that characterize SMEs which is mainly

centered on the owner who usually doubles as the manager. Bartholomeusz and Tanewski (2016), mentioned that SMEs and family business usually do not survive beyond the first generation owners because most owners do not involve company boards to effectively run their business. The governance of SMEs in the study area therefore, put a huge question mark on the long term existence of the companies. This centralization of decision making explains why over 70% of SMEs in Magaba SMEs Industry were less than 2 years old.

4.6 Effect of Internal Controls on Company Performance

4.6.1 Respondents according to knowledge about Internal Controls

Figure 11: Respondents according to knowledge about Internal Controls



Source: Primary Data

Figure 11 above shows the statistics of respondents after being asked whether they understand what internal controls in a business are. From the data gathered, it 41% indicated that they knew what internal controls are while 53% did not know. A further 6% were not sure and could not even tell whether they exist in their companies. From the above statistics, it is evident that fairly good number figure was aware of what internal controls are but what was worrying was that over 50% did not know. Such ignorance demonstrates the neglect that SMEs in the study area had on this important aspect. As well said by

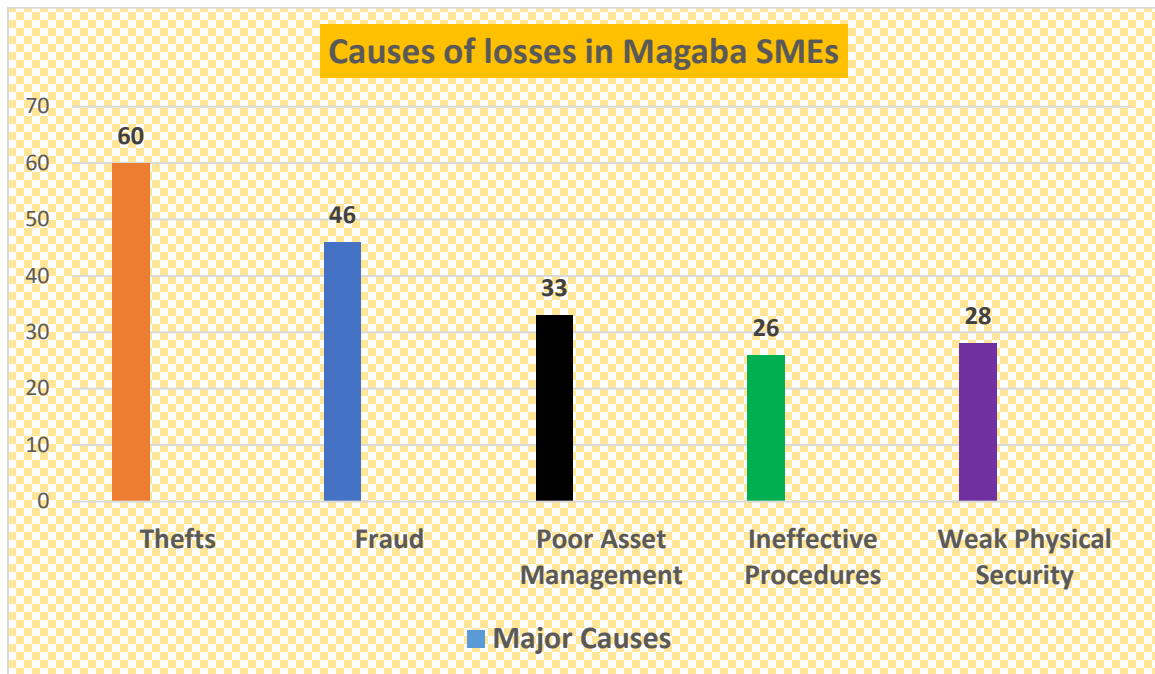
Hoitash et al (2012), effective internal controls in SMEs act as safety valves against wastage of resources through malpractices such as over allocation, thefts and other forms of pilferage.

4.6.2 Forms of Internal Controls in Magaba SMEs Industry

Respondents showed that they had an idea on what internal controls are. What was further evident however, was the presence of lack of depth regarding what effective internal controls encompass. Over 60% indicated identified the presence of physical security features such as a fence or durawall and the presence of a security guard at the entry/exit point as their only key internal control mechanisms. During interviews, many showed that they had no company internal control policies or regulations. Hoitash et al (2012), highlighted that in Kunming, China, most SMEs incurred losses not through break-ins or robberies but through internal thefts, frauds and embezzlement perpetrated by company staff. The author further said, the biggest threat to any company's assets are its works especially in instances where there are weak controls. The evidence from respondents in Magaba SMEs Industry gave the researcher clear pointers on the absence of written down policies on how transactions are initiated, verified and approved and other key internal controls. All these loophole are easily exploited by management and other employees with criminal mind sets.

4.6.3 Respondents According Causes of Losses in Their Companies

Figure 12: Respondents according to causes of losses in their companies



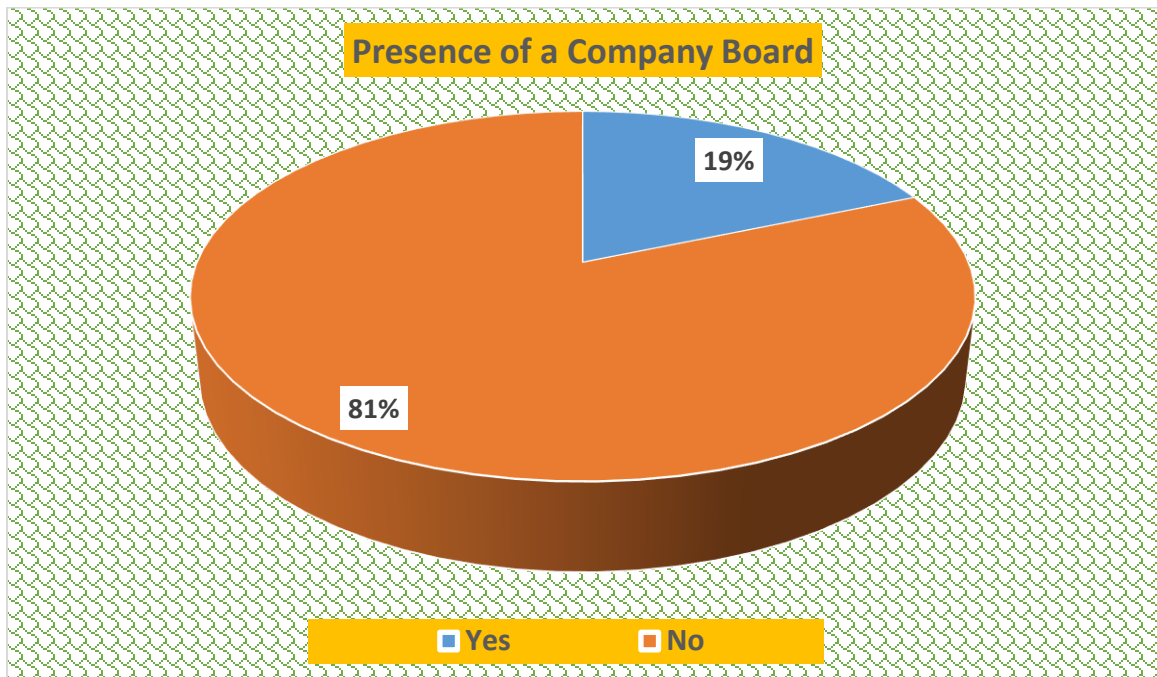
Source: Primary Data

Figure 12 above shows what the respondents identified as the causes of losses in their companies. Dominating the causes are theft and fraud. Poor asset management, ineffective procedures and weak physical security all received relatively high figure from the respondents which indicate a general lack of basic internal controls within the SMEs in the study area. The data gathered revealed that all the SMEs were not doing enough to safeguard their resources thereby retarding growth. The dominance of fraud cases and thefts points the absence of both deterring and detecting mechanism on the companies. These figure gave a clues as to why SMEs in the area were finding difficult to operate for more than two years.

4.7 Ways of Improving Corporate Governance

4.7.1 Respondents According to Presence of a Company Board

Figure 13. Respondents According To Presence of a Company Board

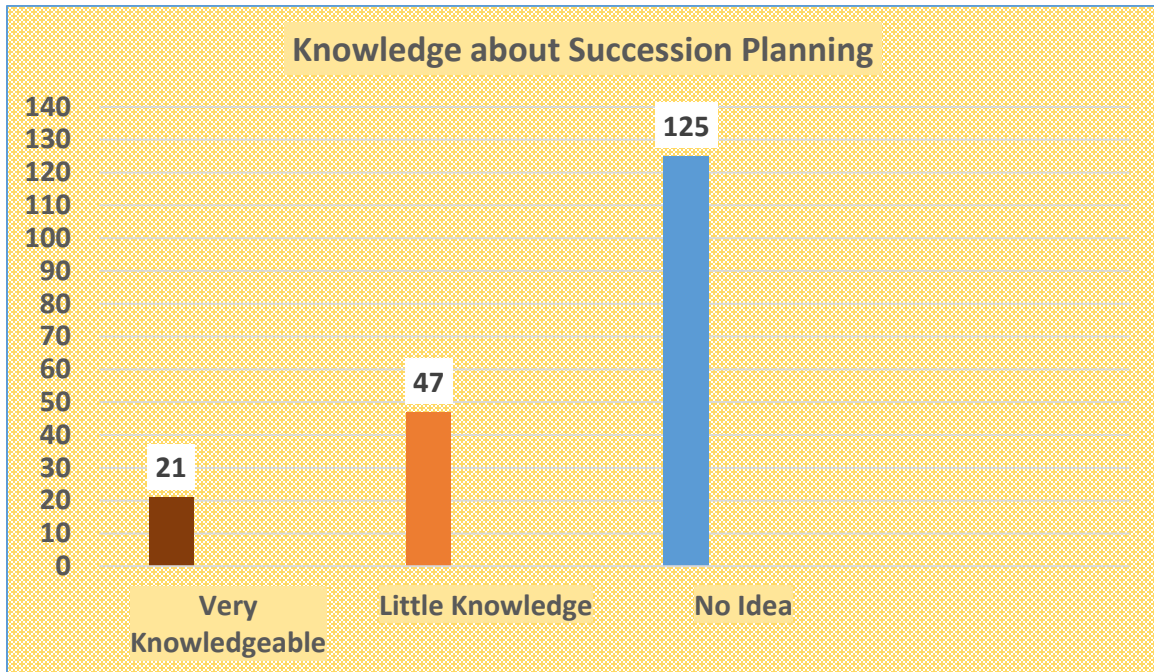


Source: Primary Data

Figure 13 shows statistics of respondents according whether their companies had company boards or not. As shown above, 81% of the SMEs had no company board while 19% indicated that they had. The data obtained in Magaba SMEs Industry confirms what the IFP (2011), confirmed in studies conducted in Lebanon that said many SMEs do not establish company boards particularly when they are still in the early years of operation as they will be run at family level along informal lines. The absence of the company board results in the dual role of owner-manager being the major characteristic of SMEs management structure. During interviews, one respondent declared that the size and age of his business was just too small to involve ‘other people’ in the running of the company because he was still capable on his own. The observation from the study area allowed the researcher to identify major weaknesses in the governance of the SMEs. Running a business in an informal way retards growth and does not allow new and broad ideas on how to deal with the challenges that confront the company on a day to day basis.

4.7.2 Respondents According to Their Understanding of Succession Planning

Figure 14. Respondents According to Their Understanding of Succession Planning



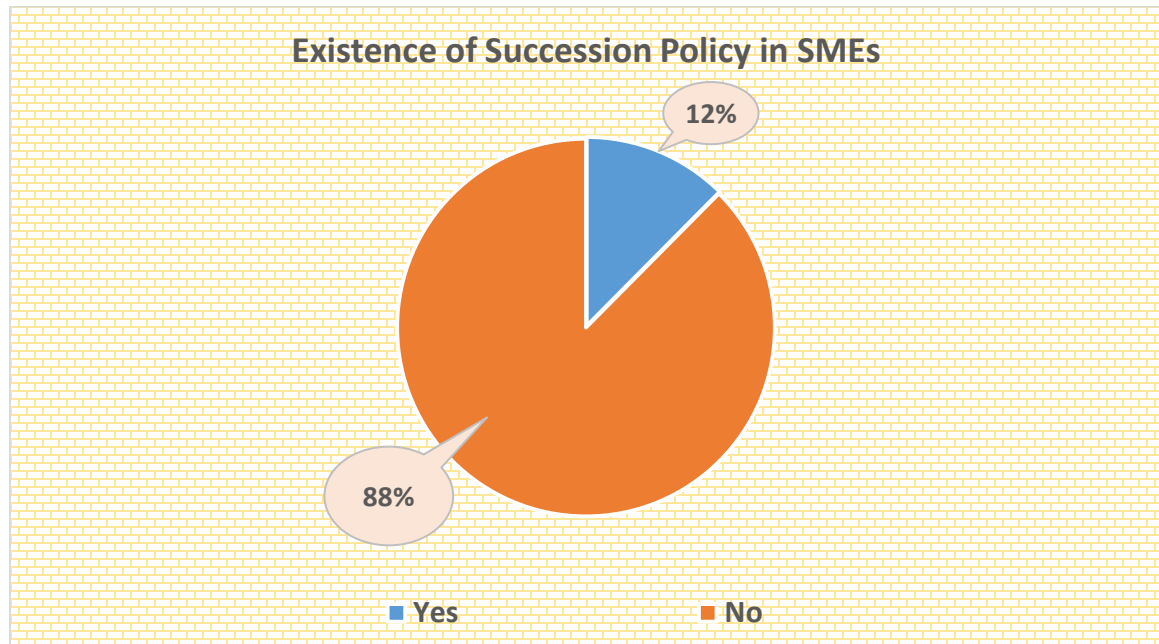
Source: Primary Data

Figure 14 above illustrates statistics of the respondents according to their knowledge of succession planning. As shown above, 125 respondents representing 64.8% of the total respondents indicated that they had no idea about what succession planning is all about. Only 21(10.1%) respondents confessed to having a good understanding of the matter. According Abouzaid (2014), a business enterprise that ignores the aspect of succession planning is actually ignoring its future. Succession planning is a key enabler of both company performance and the company survival. This aspect is even more pronounced in SMEs where management is usually zeroed on the owner alone. The departure of the owner for whatever reason spells doom to the operations and future of the company. The statistics established from the area of study shows why SMEs do not usually survive beyond first generation ownership. In the area of study, respondents showed apparent disregard to who will take over upon their departure. During interviews, one respondent, because of the deep traditional believes, declared that it was taboo to 'hand over' any of his possession while

he was alive as that was a huge negative omen upon his life. According to him, the family was to decide on who was to be the next leader after his death. This mentality explains why SEDCO (2014) statistics showed that most Zimbabwean SMEs fold within the first 3 years of establishment.

4.7.3 Respondents According to Whether They Have a Succession Policy

Figure 15: Respondents According to Whether They Have a Succession Policy



Source: Primary Data

Figure 15 above shows the statistics of respondents according to the existence of succession policies in their companies. From the data gathered, 169 respondents that constitute 88% of the total respondents indicated that they did not have any succession policy or plan in their SMEs. Only 12% revealed that they had a succession policy in place. During interviews, some respondents stated that their business did not have anything written down but were clear as to who would succeed the current owner-manager since theirs was a family business which was going to follow the traditional family succession approach. Many respondents also revealed that they were not clear on who was going to take over in case the present owner-manager was to depart. According to Abouzaid (2014), many well performing SMEs crumbled soon after the departure of the first generation owner-

managers because they did not have an effective plan on who was to lead the company. The author went on to say leadership positions need to be well planned with those who will take over being groomed early for them to acclimatize to the challenges they will tackle once they are in charge. The data obtained from the study area was a firm indicator of how the governance of the SMEs was being done at the moment but, more importantly, how it will unfold in future when the current leadership departs. SMEs are known for their immediate collapse once the first owners depart which vindicates the very short operational durations of several SMEs in the study area.

4.8 Chapter Summary

This Chapter covered data presentation, analysis and interpretation. The next chapter will focus on summarizing the whole study, present research findings, drawing conclusions and coming up with recommendations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The study sought to establish the significance of corporate governance in Small and Medium Enterprises in Zimbabwe concentrating on SMEs level of education, owner/manager arrangements, internal controls and succession planning. The study focused on Magaba SMEs Industry in Mbare Harare. This Chapter presented the summary of research findings, the conclusions and the recommendations for further studies.

5.1 Summary of Research Findings

The study established that most of the SMEs operating in Magaba SMEs Industry were males. Due to the type and nature of jobs that dominate the industry, very few females have the guts to engage in such blue-collar jobs. This finding supports the SEDCO (2014) observation that entrepreneurial related opportunities were mostly being grabbed by men as women were sceptical to take risks of engaging in new businesses. The study further established that adults of between 31 and 50 years dominated the SMEs business environment as these were still active, innovative and would be willing to venture in new business initiatives. It was also established that an almost homogeneous pattern of business dominated the study area as over 92% of SMEs engaged in only four categories of business that included business dealing in building material, water and irrigation equipment, farming equipment as well as fencing equipment.

The study also found out that most of the SMEs in the study area possessed secondary education only. Very few entrepreneurs had professional qualifications like diplomas, degrees and masters' degrees. This showed that most business owners had very low educational backgrounds that would make it difficult for them to deal with complex governance matters in times of need. Of those that possessed some professional

qualifications, the study established that there was a huge discord between the type of qualification and the line of business they were undertaking. The research found out that just over 11% of the SMEs had qualifications that were in line with the type of business they were engaged in a scenario that threatens business performance and sustainability. Since complex business decisions and corporate governance matters demand someone with a healthy educational background, this finding gave insights into the capability and level of corporate governance of the business owners-cum-managers that operate the SMEs in Magaba.

Regarding possession of knowledge related to corporate governance by the business owner-managers that were running the SMEs in Magaba, the study established that over 70% did not have a clue on what corporate governance entailed. Very few confirmed that they had sound knowledge about corporate governance. This finding indicated that basic corporate governance practices and principles were not being practiced by SMEs in Magaba which can be a probable reason why many were closing after a very short period of operation.

Concerning the role and influence of owners on the performance of the company, the study found out that owners of SMEs in the study area had a massive and pivotal role and influence on how the company performs. The research further established that since owners were so influential, they were also the ones that determined whether the company had to have a company board or not. The same owners were also playing key roles in sourcing for resources as well as determining how these were going to be employed. This research also established that, the level and standard of corporate governance for SMEs in the study area were dependent on the dictates of the owner of the company.

Regarding the way decisions were being made at the company, the research found out that over 67% of the SMEs were relying on decisions that were being made solely by the owner. Very few companies revealed that their decisions were being taken after some consultation with other key members like managers or heads of different sections. From this finding, it was clear that most owners were taking solo decisions without tapping into the ideas of their key staff members a situation that usually results in poor courses of action being adopted. Because of the one-man-band decision making process, the study found out that

over 86% believed that once the owner of the company departs, the demise of the company was inevitable.

The research also established that over 50% of the SMEs were aware of what internal controls within a business were. This knowledge was important to every company as it ensured that the limited resources that many SMEs possess were safeguarded and used efficiently. The research further established that in the study area, most SMEs possessed the basic notion that internal controls were confined to the use of guards, fences and perimeter walls. It was noted that while internal controls did exist in most SMEs, the controls were too basic and at times out of touch with today's business requirements. The study also established that the existing controls were not effective in curbing crimes such as fraud, embezzlement, internal thefts, etc. Absence of written down internal control policies was also found to be a major governance weakness.

In addition, the study found out that 88% of the SMEs had no plan on who was to lead the company after the present owner-manager departs. The absence of the succession plan or policy was a critical indicator on the survival and sustainability prospects of the company once the present leadership departs. Regarding ways of improving corporate governance, the research found out that the establishment of company boards, developing of effective internal controls as well as possession of an effective succession plan were some of the practices that the SMEs in the study area needed to introduce in their companies. Because many of the SMEs in Magaba were operating in a family set up and in a largely informal way, 81% of them did not have a company board.

5.2 Conclusions Based on Research Objectives

5.2.1 Objective 1:

- ❖ From the data gathered during the study, the researcher concluded that the level of education has a huge bearing on the standard of corporate governance in Magaba SMEs Industry. A healthy educational background allows business owner-managers to be able to appreciate the importance of good corporate governance as well as understand better the operating environment that SMEs are in so that they deal with challenges in a better way.

5.2.2 Objective 2:

- ❖ The Researcher further concluded that owners of businesses in Magaba have great influence and effect on the performance and survival of the company. Since the acquisition of resources, recruitment of staff and governance practices in a company are all determined by the business owner, such roles make the owner a pivotal figure in as far as determining the sustainability prospects of the company is concerned.

5.2.3 Objective 3:

- ❖ The researcher also concluded that internal controls do exist in Magaba SMEs Industry but they do so in very basic and outdated methods and practices. Internal controls for businesses have evolved a great deal over the years which calls for their inclusion into company policies, processes and standard operating procedures. The researcher concluded that this was missing among Magaba SMEs as they lacked the deeper and modern understanding of how internal controls ought to be. Due to this glaring deficiency, it was further concluded that huge losses were being incurred by the businesses in the study area a situation that is a direct threat to company survival and sustainability.

5.2.4 Objective 4:

- ❖ The researcher further concluded that the SMEs in Magaba needed to have clear and credible succession policies so that business continuity is guaranteed once the present owner-mangers depart. Since the survival and sustainability of any company hinges on how succession dynamics are handled, SMEs in Magaba needed to establish succession plans for their entities.
- ❖ The researcher also concluded that a number of measures needed to be put in place by SMEs in Magaba in order for them to improve their overall corporate governance practices. These measures include the appointment of company boards that should run the affairs of the company so that transparency and strategic planning is effectively executed. While the conventional company boards may not be relevant to SMEs due to their size and semi-formal nature, the existence of a basic board from where decisions could be made goes a long way in enhancing the company's performance, survival and ultimate sustainability.

- ❖ In order to understand fully the contemporary business demands as well as cope with the volatile operating environments that SMEs exist in, a healthy educational background is a prerequisite. In that regard, the researcher concluded that the SMEs in Magaba should improve their education levels so that both corporate governance practices and company sustainability are enhanced.

5.3 Recommendations

The study showed that the level of corporate governance in SMEs in Magaba Industry was poor. This was severely affecting their viability as well as their survival and sustainability. In light of this not so healthy governance standards, it is recommended that;

5.3.1 Improvement of Education Levels

Corporate governance thrives in businesses where the owner-managers as well as the staff possess good and healthy education. For SMEs in Magaba Industry to improve on corporate governance standards, they should consider improving their levels of education. The government on the other hand should ensure that the Education 5.0 is introduced from secondary education instead of the current scenario where it is emphasised in tertiary education only.

5.3.2 Introducing Company Boards

While SMEs usually find it difficult to possess company boards that are similar to big companies due to the fact that many of them are run informally and at family level, it is good for them to introduce at a lesser scale, a company board that is responsible for running the affairs of the company. That way, decision making and corporate governance will improve.

5.3.3 Introduce Internal Control Policies

SMEs are losing huge amounts of valuable resources due both internal and external criminal activities. To curb this problem, SME businesses in Magaba Industry should

introduce modern and effective internal controls that will go a long way in safeguarding their little resources.

5.3.4 Succession Planning

SMEs in Magaba Industry should have a clear and fair succession plan for their businesses. The reason why many SMEs were folding soon after the departure of the present owner-managers is that no plans were in place on who was to take over. This then led to squabbles and disunity among family or staff members. It is therefore, prudent that SMEs craft an effective succession policy so that both the governance and performance of the company will not be affected upon demise/departure of key members.

5.4 Further Research

This study focused on the significance of corporate governance on the sustainability of SMEs with emphasis being made on how corporate governance variables such as the education level, company board composition, role of owners, internal control, and succession planning were being applied. During the study however, it was apparent that some of the prescribed corporate governance expectations were more applicable to big companies than to the SMEs environment. It is therefore, important that further researches be done to identify relevant and SME-specific governance variables/principles instead of rubber stamping those applicable to formal, big or multi-national companies in the assessment of SMEs.

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APPENDIX 1: QUESTIONNAIRE INTRODUCTORY LETTER

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

GRADUATE SCHOOL OF BUSINESS (GBS)

“Where Great Minds Meet”



Dear respondent

I am a student at Bindura University of Science Education doing a Masters in Leadership and Corporate Governance (MLC). I am carrying out a research on the significance of Corporate Governance in Small and Medium Enterprises in Zimbabwe, using Magaba SMEs industry in Mbare, Harare as my area of study.

I am kindly asking you to complete the questionnaire attached to this letter giving true representations and expressions of your views. Carefully follow the instructions written on the questionnaire and answer all the questions.

Please be advised that your participation in this study is voluntary and you can at any time decide to withdraw from the study without any prejudice. The information will be confidential as identity will not be disclosed to any third parties and will be used strictly for academic purposes.

Your contribution will be greatly appreciated. Thank you.

Venancio Gotami Contact Number 0712 832 421/0773554004.
Email: papagotz24@gmail.com

APPENDIX 2: QUESTIONNAIRE FOR RESPONDENTS

TOPIC: THE SIGNIFICANCE OF CORPORATE GOVERNANCE IN SMALL AND MEDIUM ENTERPRISES IN ZIMBABWE: A STUDY OF MAGABA SMEs INDUSTRY IN MBARE, HARARE

Instructions

Please do **not** write your name

Tick the relevant box where appropriate or write your answers in the space provided.

Section A: Demographic Data

1. What is your sex?

Male

Female

2. State your age category?

18-30 years

31-40 years

41-50 years

51-60 years

61 years and more

3. What type of business are you in?

Building Material

Irrigation/water equipment

Farming equipment

Fencing equipment

Other (Specify).....

4. How long have you been running your business?

Under a year

2 years

3 years

4 years

5 or more years

Section B: Assessment of educational background

5. What is your level of education?

O' Level

A' Level

College Diploma

Degree

Masters' Degree

PHD

Other (Specify).....

6. Is your degree in line with the business you are running?

Yes

No

Not sure

7. Do you understand what is meant by corporate governance?

Yes

No

I have little idea

8. Do you believe that the level of education has a bearing on corporate governance practices within a company?

Yes

No

Not Sure

8. If you answered 'NO' on question 7, can you briefly explain what you believe determines the performance of the company

.....

.....

.....

.....

.....

.....

Section C: Role of the Owner on Company performance

9. Are you the owner of the company you are working for?

Yes

No

I am in a partnership

10. Do you agree that the owner of a company has a huge influence on the performance of the company?

Strongly Agree

Agree

Do not Agree

Not Sure

11. How are decisions made in your company?

Owner takes solo decisions

There is consultation with managers

Every member of staff is consulted

No Idea on how they are made

12. If the owner is to leave the company today, do you see the company surviving?

Yes

No

Not sure

Section D: Effect of Internal Controls on Company Performance

13. Do you understand what is meant by internal controls in a business?

Yes

No

Not sure

14. List any forms of internal control that exist in your company.

1.....

2.....

3.....

4.....

5.....

15. Are you satisfied with the effectiveness of internal controls in your company?

Yes

To some extent (needs improvement)

No

16. In your opinion what is causing some losses in your company?

Thefts

Transaction fraud

Poor Asset Management

Lack of clear standard procedures

Others (Specify)

.....

.....

Section E: Ways of improving corporate governance

17. Do you have a company board for your firm?

Yes

No

18. Do you think a board is important for your company?

Yes

No

Not Sure

19. Do you have managers that are responsible for different sections/departments of the company?

Yes

No

20. How do you rate the effectiveness of your internal control?

Very strong

Fairly Strong

Strong

Weak

21. Do you understand what is involved in succession planning?

Yes

No

22. Does your company have any succession policy?

Yes

No

23. Are you clear as to who will take over as head in all key leadership positions available in the company?

Yes

No

Such matters are never discussed

Thank you for your valued cooperation.

APPENDIX 3: INTERVIEW GUIDELINE

QUESTIONS

1. What type of business are you in?
2. How long have you been running your business?
3. What is your level of education?
4. Is your qualification in line with the business you are running?
5. Do you understand what is meant by corporate governance?
6. Do you believe that the level of education has a bearing on corporate governance practices within a company?
7. What do you believe determines the performance of the company?
8. Do the owner of a company have a huge influence on the performance of the company?
9. How are decisions made in your company?
10. If the owner is to leave the company today, do you see the company surviving?
11. Do you understand what is meant by internal controls in a business?
12. Are you satisfied with the effectiveness of internal controls in your company?
13. In your opinion what is causing some losses in your company?
14. Do you have a company board for your firm?
15. Do you have managers that are responsible for different sections/departments of the company?
16. Do you understand what is involved in succession planning?
17. Does your company have any succession policy?
18. Are you clear as to who will take over as head in all key leadership positions available in the company?

Thank you for your cooperation.

APPENDIX 4: RESEARCH SUPERVISION CONSULTATION REPORT FORM

**BINDURA UNIVERSITY OF SCIENCE EDUCATION
FACULTY OF COMMERCE
GRADUATE SCHOOL OF BUSINESS
RESEARCH SUPERVISION CONSULTATION REPORT FORM**

STUDENT'S NAME: VENANCIO GOTAMI **REG. NUMBER:** B1439684

DISSERTATION SUPERVISOR: DR RM RUSIKE

PROGRAMME: *Masters in Leadership and Corporate Governance*

DISSERTATION TITLE: *The significance of corporate governance in Small and Medium Enterprises in Zimbabwe: A study of Magaba SMEs Industry in Mbare, Harare.*

DATE	STAGE OF RESEARCH	SUPERVISORS' COMMENTS AND INITIALS
03/03/22	Research Proposal	<i>Rm Rusike</i>
07/04/22	Chapter 1	<i>Rm Rusike</i>
29/04/22	Chapter 1 (Corrections)	<i>Rm Rusike</i>
10/05/22	Chapter 2 & 3	<i>Rm Rusike</i>
25/05/22	Chapter 2 & 3 (Corrections)	<i>Rm Rusike</i>
01/06/22	Chapter 4	<i>Rm Rusike</i>
13/06/22	Chapter 4 & 5	<i>Rm Rusike</i>
27/06/22	Chapter 1 to 5	<i>Rm Rusike</i>

OVERALL COMMENTS BY THE SUPERVISOR:

A Hard Working Student

STUDENT'S SIGNATURE:  **DATE:** 27/06/22

SUPERVISOR'S SIGNATURE: *Rm Rusike* **DATE:** 27/06/22

APPENDIX 5: TURNITIN ORIGINALITY REPORT

- Processed on: 29-Jun-2022 12:08 EAT
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- Word Count: 19023
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THE SIGNIFICANCE OF CORPORATE GOVERNANCE IN SMALL AND MEDIUM ENTERPRISES IN ZIMBABWE:
A STUDY OF MAGABA SMES INDUSTRY IN MBARE, HARARE. By VENANCIO GOTAMI

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CHAPTER ONE INTRODUCTION 1.1 Introduction Small and Medium Enterprises (SMEs) have become key players in the economic development of several countries. As an illustration of their importance, many countries possess fully fledged ministries that are responsible for the coordination and running of SMEs affairs. Despite their pivotal role in national economies, one common characteristic among SMEs is the challenge of poor corporate governance practices which always leads to poor performance and short lifespan. This study on the significance of corporate governance in Small and Medium Enterprises in Zimbabwe was conducted in the Magaba SMEs Industry in Mbare, Harare. Chapter 1 introduced the area of study and covered aspects such as the background of the study, statement of the problem, research objectives, research questions, significance of the research, research limitations, etc. 1.2 Background of the Study Since the early 1970s SMEs began to play key roles in many economies particularly in then-fast developing countries in Asia and Europe, (Maranga, 2014). The success stories of innovation hubs like the Silicon Valley and the Cambridge District in the USA and UK respectively spurred many countries to promote the growth of SMEs. The emergency of these SMEs saw them operating hugely in an informal way which in many cases across the whole world retarded their growth and became catalysts for their demise. It was therefore, realized that the governance of SMEs had to mirror that of any other formal entity if SMEs were survive, (Ndagu and Obuobi, 2010). According to Ndagu and Obuobi (2010), the call for effective corporate governance should no longer be confined to big and public enterprises. Good corporate governance and application of governance principles now also applies to SMEs because such principles are, without doubt, the foundation for every company's success and survival. According to Maranga (2014), SMEs account for more than 90% of global firms and on average, they contribute about 50% of GDP and 60% of employment in various nations. The Asian Development Bank Institute (ADBI) (2016), posits that Asia has been continuously growing during the recent