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TOPIC: effects of corporate governance practices on the financial performance of smes in zimbabwe

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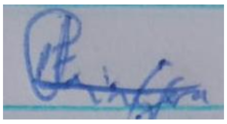

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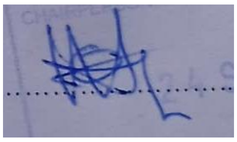

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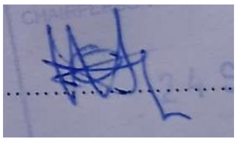

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DEDICATION

I dedicate my dissertation to my siblings and parents who have been there for me every step of the way. Their unwavering support and the countless times they sacrificed their own family time during my entire degree program especially throughout the research project are beyond measure.

ACKNOWLEDGEMENT

I want to express my heartfelt gratitude to God for granting me the strength, courage and wisdom to complete my task. I also want to give special recognition and thanks to my supervisor for the invaluable help, constant availability, encouragement and guidance throughout my research project.

ACRONYMS AND ABBREVIATIONS

SMEs – Small to Medium Enterprises

SOX Act- Sarbanes-Oxley Act

ZIMCODE – Zimbabwe Code on Corporate Governance

OECD – Organization of Economic Corporation and Development

IODSA – Institute of Directors South Africa

PFMA – Public Financial Management Act

ABSTRACT

This comprehensive study explores the effects of corporate governance practices on the financial performance of SMEs operating within the context of Zimbabwe. It investigates different aspects of corporate governance such as board size, diversity, managerial competency, internal controls and financial transparency within the Zimbabwean context. The goals were to understand the corporate governance practices adopted by SMEs, identify challenges in their implementation and explore the link between these practices and financial performance. Data was collected through questionnaires and interviews with SME owners and staff involving 120 respondents. Qualitative and quantitative approaches were both utilized in this research process to gather data. Regression analysis was utilized to pinpoint the primary independent variables influencing SMEs' financial performance. The findings revealed a positive correlation between corporate governance standards and financial performance among SMEs. In conclusion, the report recommends the establishment of a clear legal framework for corporate governance in SMEs along with initiatives to raise awareness and provide education on these practices.

Key words: corporate governance, financial performance, small to medium-sized enterprises

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The current section sets the stage for this project titled "Effects of corporate governance practices on the financial performance of SMEs in Zimbabwe." It covers the study's background, the main problem being addressed, the objectives of this study, the questions directing this investigation as well as addressing the importance of this study. Additionally, it outlines the boundaries relating to this study, acknowledges its limitations and clarifies key terms used throughout. Finally, a synopsis pertaining to this section is also provided.

1.1 Background of the study

Several African countries or economies are grappling with issues such as high unemployment rates, decreases in foreign direct investment, limited development and poor trade conditions (M.C. & Wiid, 2013) (DeBerry-Spence & Elliot, 2012) (OECD, 2016) (Ramutsindela & Mickler, 2020). These factors have led to discontent among the general population who are struggling with unemployment, increasing exchange rates, unstable currency and soaring living costs (Aryeetey & Baah-Boateng 2007) (Aryeetey & McKay, 2007) (Meng, 2004). In many instances, the general public usually convey their discontent by participating in protests, riots and mass acts of disobedience (Lynch, 2012). Nevertheless, governments are taking action in response to these challenges as seen in their efforts to support and empower small and medium-sized enterprises, recognizing their importance to society (De Silva, 2011) (Moon, 2018). Keeping this in mind, governments are creating thorough corporate governance frameworks that promote the expansion and development of SMEs, ultimately benefiting the nation as a whole (Abor, 2007) (Abor & Biekpe, 2005) (Maurizio, 2014). In many developing countries most small and medium-sized enterprises lack proper governance structures which can pose significant challenges (Bokpin, 2013) (Mensah, 2004). It is important to raise awareness among SMEs in developing countries about corporate governance issues (Agyemang & Castellini, 2015) (Okenwa, Francis & Abiahu, 2017).

In simple terms, corporate governance in a country refers to the overall system that helps connect directors and shareholders who have mutual interests in a company's operations. (Carney and Gedajlovic 2014). Organization of Economic Corporation and Development (1999) and Cadbury report (1992) agree that corporate governance serves as a framework for supervising and coordinating the companies.

1.2 Problem Statement

In Zimbabwe, SMEs comprise a significant portion of around 85% of the total employment (Maune, 2015). These enterprises are vital to Zimbabwe's economy, playing a crucial role in business and fostering economic growth. The primary reason for the downfall of these enterprises in Zimbabwe can be traced back to inadequate governance practices. Meanwhile, globally listed companies are known for adhering to corporate governance standards. Maune (2015) hints that there are indications that small and medium-sized enterprises particularly those operating informally may not follow these standards. The significance of SMEs in the economy cannot be overstated as they contribute substantially to the dissemination of expertise among other prominent economic entities (Dumbu, 2018). Crucially, good governance is pivotal as it fosters the growth of these micro enterprises (Guruwo & Munjeyi, 2018). To fill this knowledge gap, this study is titled: Effects of corporate governance practices on the financial performance of SMEs in Zimbabwe.

1.3 Objectives of the study

Objectives pertaining to this study are outlined below:

i. To examine the corporate governance practices employed by SMEs.

ii. To look at the challenges faced in the implementation of corporate governance practices

iii. To ascertain whether corporate governance practices and financial performance are related.

1.4 Research questions

i. What are the corporate governance practices put in place by SMEs?

ii. What are the challenges faced in the implementation of corporate governance practices by SMEs?

iii. What is the relationship between corporate governance practices and financial performance?

1.5 Significance of the study

The primary objective of this study is to ascertain whether SMEs operating within the Zimbabwean context adhere to established principles of good corporate governance. Understanding this can help policymakers like governments and relevant ministries grasp why SMEs sometimes fail. Additionally, the findings can provide guidance for SMEs by clarifying areas that have been unclear. Most importantly, this research is in pursuit of addressing the differences relating to the knowledge about the financial performance of SMEs in Zimbabwe and their corporate governance practices.

1.6 Assumptions

This research is to be done based on the subsequent assumptions:

i. To ensure the precision of conclusions drawn, all forms and consultations will be responded to with the utmost good faith.
ii. Respondents will fully comprehend the inquiries.
iii. The selected sample accurately reflects all small businesses.

1.7 Delimitations of the study

While Zimbabwe boasts numerous SMEs, this study will center its examination on those located predominantly in and around KweKwe. Though corporate governance encompasses various organizational facets, this research will specifically investigate the correlation linking the administration of entities to their economic performance.

1.8 Limitations

The potential challenges in garnering a high response rate to the inquiry form stem from the demanding schedules of the intended respondents and the sensitive nature of the information sought which may foster reluctance. However, the researcher intends to employ persuasive strategies to encourage participation. Additionally, considering the vast number of SMEs, time constraints and financial limitations the study will predominantly target SMEs in the vicinity of KweKwe. To address these constraints effective time management strategies will be implemented and efforts will be made to secure supplementary funding.

1.9 Definition of terms

Corporate governance

Corporate governance is a procedure which relates to the coordination and control of an organization (OECD, 1999) (Cadbury Report, 1992).

SMEs – Small to Medium Enterprises

SOX Act- Sarbanes-Oxley Act

ZIMCODE – Zimbabwe Code on Corporate Governance

OECD – Organization of Economic Corporation and Development

OECD – Organization of Economic Corporation and Development

IODSA – Institute of Directors South Africa

PFMA – Public Financial Management Act

1.10 Summary

The current section has introduced an overview of the context surrounding this study. In addition, a brief problem statement was also outlined. Furthermore, it has outlined the objectives, articulated the key inquiries guiding the research process and underscored the relevance pertaining to this study. Following the presentation of hypotheses and description of limitations the chapter has also addressed the study's constraints. The following chapter will be dedicated to conducting an extensive review of relevant literature.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The current chapter presents an examination of studies conducted by fellow scholars' in relation to the present study. It delves into the theories and practices of corporate governance drawing upon a comprehensive review of scholarly journals, books, research papers, and articles. A robust discourse is presented, synthesizing the findings and insights obtained from the literature.

2.1 Theoretical framework

2.1.1 Agency Theory

Shareholders in today's companies typically refrain from involvement in the daily operations of running the business. Instead, they hire managers to handle things and make sure resources are used well. Challenges may arise when these managers acting as agents fail to prioritize the interests of the shareholders or principals such as maximizing profitability .Schleifer and Vishny (1997) point out that agency issues emerge when the actions of the agent diverge from the interests of the shareholder who serves as the principal. To mitigate agency conflicts, managers ought to be provided with adequate performance incentives aligned with their responsibilities and ensure alignment with the objectives of their superiors (Berle and Means 2014). Eisenhardt (1989) notes that two issues emerge in the dynamic relationship between shareholders who represent the principals and managers who serve as agents. Primarily, conflicts arise due to disparities in the interests of the involved parties. Secondly, it is contingent upon distinct variations in the risk preferences of both parties. Additionally, Chrisman et al (2004) argue that conflicts between principals and agents arise due to information asymmetry. According to agency theory, managerial decisions that prioritize personal interests over those of shareholders escalate the expenses associated with addressing agency problems. These costs stem from various corporate governance mechanisms including audits, non-financial and financial incentives for managers, budgeting processes and the appointment of independent directors. Implementing a performance-based incentive structure aimed at curbing managerial opportunism and optimizing shareholder value is posited to mitigate these costs (Eisenhardt 1989). Rupp and Smith (2002) argue that to alleviate agency problems pay-for-performance should be introduced to express the relationship between pay and company performance.

2.1.2 Stewardship theory

Managers are recognized as stewards of the corporation and are thus bound by legal obligations to oversee its operations. Consequently, they are mandated to execute their duties in accordance with the organization's best interests prioritizing maximization of shareholder wealth over personal interests. (Davies et al., 1997). Clark (2014) proposes that managers strive to optimize expectations through the performance of the company. Moreover, it advocates for a theory wherein managers are motivated and fulfilled by the achievement of organizational objectives as opposed to an agency theory grounded in individualistic principles. Stewardship theory draws upon McGregor's Theory Y (1960) elucidating individuals' intrinsic motivation towards work. Within stewardship theory, there is an endorsement of CEO duality wherein the CEO assumes both the position of chairman and chief executive officer.

2.1.1 Comparison table between Agency and Stakeholder Theory

	Theory of agency	Theory of stewardship
Proprietor	Principal	Principal
Managers are perceived to be:	Acting as agents	Acting as stewards
Approach to governance	Economic factors and considerations	Psychological and sociological perspectives
Behavioural model	Emphasises individuality Opportunistic Serving oneself	Collectivists Supportive of the organization Trustworthy
Motivation	Administrative personnel objectives	Principals objectives
Shareholders and Managers interests	Diverge	Converge
Attitude of owner	Risk aversion	Risk propensity
The foundation of the relationship between manager and shareholder:	Exercise of control	Exercise of trust
<u>Psychological mechanism</u> Drive	Extrinsic needs Needs of lower order	Intrinsic needs Needs of higher order
Power	Institutional	Personal
<u>Situational mechanism</u> Philosophy of management	Oriented towards control	Oriented towards involvement
Duration	Short- term duration	Long- term duration
Culture	Emphasizes individuality Great distance in power	Emphasizes collective interests Short distance in power

Source: Alphonso Vagas Sanchez (2001)

2.1.4 Stakeholder Theory

Abrams (1951) has affirmed that this theory aims to establish equilibrium between the aspirations of the company and the satisfaction of its shareholders. Contemporary organizations are compelled to address not only the concerns of shareholders but also those of the broader community in which they operate (McDonald & Puxty, 1979). Stakeholders are defined as individuals or groups with a vested interest in a company or its operations (Freeman, 1984). These stakeholders encompass a spectrum of entities including employees, members of the community and shareholders (Beamchamp & Bonie, 2004). One notable limitation of stakeholder theory is its failure to account for elements such as organizational structure, workplace dynamics and communication channels in assessing corporate performance. Instead, corporate performance is typically evaluated solely based on stakeholder interests (Jensen, 2002).

2.1.5 Resource Dependency Theory

Within this theory, Pfeffer (1972) posits that a company's prosperity correlates with the extent of resources under its control. Emphasizing the significance of the board of directors, this theory underscores their responsibility in safeguarding the organization's vital resources through external engagements with the environment. Hilman and Dalziel (2003) contend that these external connections serve as crucial channels for accessing prized resources including technology, information, raw materials and clientele.

2.2 Overview of Corporate Governance in South Africa

Petra (2007) asserts that corporate governance laws undergo continuous updates necessitating countries to align their legal frameworks with international standards. Strenger (2015) posits that corporate governance systems lack a singular methodology due to variations in business operations, legal structures, cultural norms and governance practices across nations. Given its strong economic ties with South Africa, Zimbabwe's legal framework has been heavily influenced by the latter (Besada & Werner, 2014).

Afolabi (2015) underscores the detrimental impact of UN sanctions imposed on South Africa during the apartheid era which resulted in the collapse of its corporate governance system and hindered its global competitiveness. Mallin (2014) corroborates this viewpoint highlighting South Africa's significant reforms in corporate governance post-independence to cater to the requirements of international financiers.

Consequently, IODSA spearheaded the development of corporate governance guidelines reflected in King's Code I–III.

Moloi (2018) identifies the principal drivers of corporate governance in South Africa including Acts of Parliament, legislative frameworks, listing requirements of the Johannesburg Stock Exchange and legislation such as the PFMA and the Companies Act. The Public Financial Management Act enacted on April 1, 2000 superseded the reporting requirements outlined in the State Entities Act aiming to provide prudent management of state entities' assets, liabilities, expenses and revenues.

2.2.1 Overview of Corporate Governance in Zimbabwe

Following the country's independence in 1980, the nation grappled with significant challenges including substantial debt, economic stagnation and persistent social issues that endure to this day. State-owned enterprises (SOEs) were particularly affected by this predicament experiencing poor performance and heavy reliance on the central government for restructuring efforts (Zwavahera, 2014). In response to these challenges, Zimbabwe introduced a corporate governance framework in 2010 aimed at averting further governance failures within SOEs (Zhou, 2014). Drawing upon global counterparts such as South Africa, Zimbabwe incorporated certain elements of corporate governance to align its framework with international standards (Clarke, 2014).

2.2.2 Public Entities Corporate Governance Bill of 2017

This legislation was enacted to regulate the governance of governmental entities under the purview of the central government in Zimbabwe (PCG, 2017). According to the bill, board members are mandated to serve four-year terms and may be eligible for one additional term upon re-election. Additionally, the legislation imposes limitations on the appointment of individuals to various committees (PCG, 2017).

Areas of interest for the bill include:

- ✓ Limits on the amount of bonuses for directors.
- ✓ It describes the responsibilities of the Corporate Governance Department which has an advisory and supervisory role to the ministries. The Corporate Governance Department is part of the Office of the President and Cabinet (OPC).

- ✓ It requires accountability for the management and operation of quasi-governmental activities and ensures that quasi-governmental organizations comply with the provisions of the bill without interfering with their independence.

2.2.3 The Zimbabwe National Code on Corporate Governance (ZIMCODE)

It serves as a benchmark to ensure that businesses operating in this country adhere to optimal regulatory standards. It is structured to facilitate the adoption of globally recognized best practices in corporate governance by Zimbabwean companies. Modelled after the UK governance system, ZIMCODE adopts a principles-based approach commonly referred to as "comply or explain." It is a requirement for companies to disclose if they complied with this principle in their yearly reports. If companies fail to comply they are required to explain the rationale of doing so.

2.2.4 Corporate Governance Framework for State Entities of 2010

It draws inspiration from various jurisdictions and international corporate governance standards including prominent OECD principles, the Malawi Code and South Africa's Kings 3 code (Zhou & Zhou, 2014). The Zimbabwean government's impetus for formulating this framework stemmed from pervasive corruption and malfeasance within state-owned enterprises (Zwavahera, 2014). Despite being non-mandatory, the framework aims to address corporate governance challenges within these enterprises (Ncube & Maunganidze, 2014). Central to this framework are four core principles of corporate governance: accountability, fairness, transparency and responsibility.

2.3 Corporate Governance Practices

It encompasses a spectrum of elements including board composition and size, managerial competency and financial transparency. Effective corporate governance endeavours to safeguard and uphold the rights and welfare of stakeholders including shareholders, employees and customers. Moreover, it is instrumental in enhancing organizational efficacy while ensuring the accountability of individuals in authoritative positions for their conduct and choices.

2.3.1 Board Composition

An effective board must achieve a balance between the representation of inside and outside directors. Shareholders often perceive outside directors as superior to inside directors due to their presumed ability to safeguard shareholder interests (Carter, Simkins & Simpson, 2003). External directors' increase in response to declining firm performance (Hermalin & Weisbach, 1988). This is due to the fact that under restructuring, companies experience enhanced performance (Perry & Shivdasani, 2005). The Sarbanes-Oxley Act (SOX) specifically addressed concerns regarding board independence by stipulating that audit committee members must consist primarily of outside directors (Klein, 2003). Additionally, the presence of outside directors has been linked to mitigating instances of excessive executive compensation (Conyon & Peck, 1998) and deterring hostile takeover attempts (Kosnik, 1987)(Kosnik, 1990).

2.3.2 Board size

Extensive board size is associated with a diminished capacity for thorough analysis of the company's performance (Lipton & Lorsch, 2014). The authors further advocate that the optimal board size should consist of 7 to 9 directors aiming to mitigate the decision-making complexities commonly observed in larger boards. However, smaller boards may be susceptible to managerial influence (Yemeck, 2016).

2.3.3 Managerial competence

The leadership style employed within an organization significantly influences the performance and productivity of its employees (Bae, Kim & Oh, 2017). Consequently, the success of an enterprise hinges upon the proficiency of its managers who possess the requisite expertise in labour and resource management. These managers are tasked with executing responsibilities pertaining to planning, organizing, directing and controlling activities all aimed at attaining the predetermined objectives of the enterprise (Batchimeg, 2017).

2.3.4 Financial disclosure and transparency

Transparency denotes the accessibility of an entity's information to external stakeholders including customers (Fernadez-Feijoo, Romero & Ruiz, 2014). Transparency enhances clarity and timeliness in disclosing information enabling stakeholders to engage in the interpretation of the disclosed data. Moreover, organizations that exhibit greater transparency are anticipated to cultivate stronger relationships with governmental bodies and regulators and are more apt to garner support from diverse institutional sources.

2.4 Corporate governance and SMEs

Corporate governance concerns are pertinent to large organizations primarily due to the agency problems inherent in such entities. Conversely, SMEs are marginalized as their owners typically assume the dual roles of shareholders and managers (Hart, 1995). Aboor and Adjusi (2007) assert that SMEs exhibit less proactive engagement in promoting corporate governance practices often attributed to their exemption from disclosure requirements akin to those imposed on larger corporations. Notwithstanding these observations, global efforts are underway to enforce corporate governance adherence within the SME sector.

2.5 Overview of SMEs in Asian Countries

India's SMEs serve as crucial drivers of economic development evidenced by their employment of 40% of the nation's workforce (Sangvika & Pawar, 2019) and providing livelihoods for nearly 18 million individuals (Rathod, Ranpura & Patel, 2016). Furthermore, SMEs in India contribute significantly to the country's export sector accounting for approximately 42% of total exports (Vashisht, Chaudhary & Priyanka, 2016). Similarly, in Malaysia, small to medium-sized enterprises are crucial to the nation as they constitute 97.3% of registered business entities and serving as the backbone of the nation's economic activities (Mahzana & Yan, 2014).

2.5 Overview of SMEs in Zimbabwe

Since the year 2000, Zimbabwe has witnessed the closure of several large-scale enterprises a phenomenon that has notably spurred the expansion of these SMEs. In response to the void left by the closure of these large enterprises, SMEs have capitalized on the opportunity to emerge as significant contributors to the economy (Majoni, Matunhu & Chaderopa, 2016) (Makate, Makate, Siziba & Sadomba, 2019). The remarkable capacity of SMEs to make substantial contributions to GDP growth, rural development, employment generation and poverty alleviation is a noteworthy aspect deserving of recognition, potentially serving as a catalyst for national recovery (Karedza, Sikwila, Mpofu & Makurumidze, 2014) (Maseko et al., 2011) (Maunganidze, 2013).

2.6 Financial Performance

Financial indicators such as sales, net income, profit margins and return on investment serve as common metrics utilized to assess a company's financial performance reflecting its overall health and profitability trajectory over time (Investopedia, 2021). This evaluation is essential in gauging a company's stability and operational efficacy. Specifically concerning SMEs, the examination of average earnings or sales revenue is a prevalent method employed to evaluate financial performance.

Average profit denoted as net income is a key metric calculated by dividing the total net profit by the number of accounting periods. This measure is instrumental in smoothing out fluctuations in earnings that may occur within a single period thereby offering insights into a company's financial performance trajectory. Investors leverage average profit as a predictor of long-term profitability and the ability of a company to generate consistent returns. A decline in average profit may signal financial distress whereas a sustained increase over multiple periods suggests enhanced business performance over time.

However, it is imperative to acknowledge that average profit should be evaluated in conjunction with other financial metrics such as cash flows to provide a comprehensive assessment of a company's financial health. This is crucial as a company demonstrating consistent profitability and one experiencing fluctuating earnings may yield similar average profit figures thereby necessitating a holistic examination of financial indicators.

Furthermore, it is noteworthy that past profitability does not necessarily guarantee future profitability as various external factors including economic conditions can significantly impact future earnings. Thus, while average profit offers valuable insights into a company's financial performance, it should be interpreted judiciously in the broader context of economic conditions and other financial metrics.

2.7 Empirical review

2.7.1 Challenges faced in the implantation of corporate governance practices by SMEs

Masuku and Marufu (2003) conducted a study relating to SMEs. The study focused on the obstacles encountered by these businesses in implementing corporate governance practices. Their findings revealed that the primary challenge observed was related to the laws and regulations. Specifically, the absence of a well-defined regulatory framework posed difficulties for SMEs in comprehending and adhering to corporate governance requirements. Despite access to legal counsel, many SMEs lacked the financial means and expertise necessary for regulatory compliance. Additionally, the study identified the financial burden associated with hiring professionals such as lawyers and accountants prevented SMEs from adopting these practices.

Yan (2010) investigated the key challenges confronting SMEs in terms of corporate governance implementation. The study highlighted two main issues: the shortage of labour specializing in governance of entities as well as insufficient knowledge regarding corporate governance principles. Particularly, the scarcity of trained personnel posed challenges in establishing internal control mechanisms and preparing financial statements thereby hindering the expansion prospects of SMEs.

Nyoni (2002) referenced obstacles SMEs face in implementing corporate governance practices emphasizing the deficiency in managerial and entrepreneurial skills as a major impediment to SME growth. The study underscored managerial expertise as a driving force behind the expansion of SME businesses.

Ngwenya and Ndlovu (2003) addressed the regulatory framework and policies as significant hurdles for SMEs. The study attributed these challenges to the frequent changes in Zimbabwean economic policies rendering it arduous for SMEs to conform to and comply with evolving regulatory frameworks.

2.7.2 Relationship between corporate governance practices and financial performance

Balagobei (2018) conducted a comprehensive investigation on how corporate governance and firm performance interrelate among various SMEs in Sri Lanka. The study discerned a negative correlation existed amongst financial performance and size of the board suggesting that smaller board sizes tend to adversely impact the performance of most firms within the Sri Lankan context. Olayiwola (2018) delved into the realm of corporate governance practices clarifying how they affect financial performance of registered SMEs in Nigeria. The findings unveiled that the size of the board and financial performance had a negative correlation whilst the composition of the board and profit margins had a positive correlation.

Rakha (2018) explored how corporate governance impacts financial performance of SMEs in India, specifically examining the influence of board diversity. Results indicated that diversity and financial performance have a negative correlation hence female directors exhibited a significant negative association with performance. These findings underscored the notion that a limited number of female directors can detrimentally affect financial performance highlighting the profound impact corporate governance has on financial outcomes.

Ahmed and Durga (2019) undertook a research endeavour aimed at evaluating the nexus between corporate governance and financial performance among firms in Saudi Arabia. Outcomes of the study revealed a positive correlation between board size and financial performance thereby affirming the premise that corporate governance exerts a discernible effect on financial performance within the Saudi Arabian context.

2.7.3 Corporate governance practices put in place by SMEs

Hung (2010) conducted a survey examining the corporate governance practices within SMEs in Taiwan. Findings indicated widespread adoption of practices such as the establishment of codes of ethics and the presence of active boards of directors among the surveyed companies. Contrastingly, Cheng and Lou (2009) investigated the corporate governance landscape among SMEs based in Hong Kong. Their study revealed a predominant lack of implementation of corporate governance practices within these enterprises highlighting a disparity in governance practices compared to their Taiwanese counterparts. Similarly, Ramudan and Muda (2016) identified the prevalent corporate governance practices among Malaysian SMEs citing the adoption of a code of ethics, a formal internal control system and the presence of an active board of directors as common practices within this context.

2.8 Conceptual Framework

The notion of a conceptual framework as elucidated by Camp (2001) embodies a structured approach aimed at elucidating the gradual development of the subject under investigation. From a statistical standpoint the conceptual framework serves to delineate the interrelation of key ideas within the study. Its structural arrangement facilitates a coherent depiction of how these ideas intertwine, often presented through visual diagrams (Grant & Osanloo, 2014). The fundamental objective underlying the creation of a conceptual framework is to streamline the researcher's task of delineating and defining the study (Luse, Mennecke & Townsend, 2012).

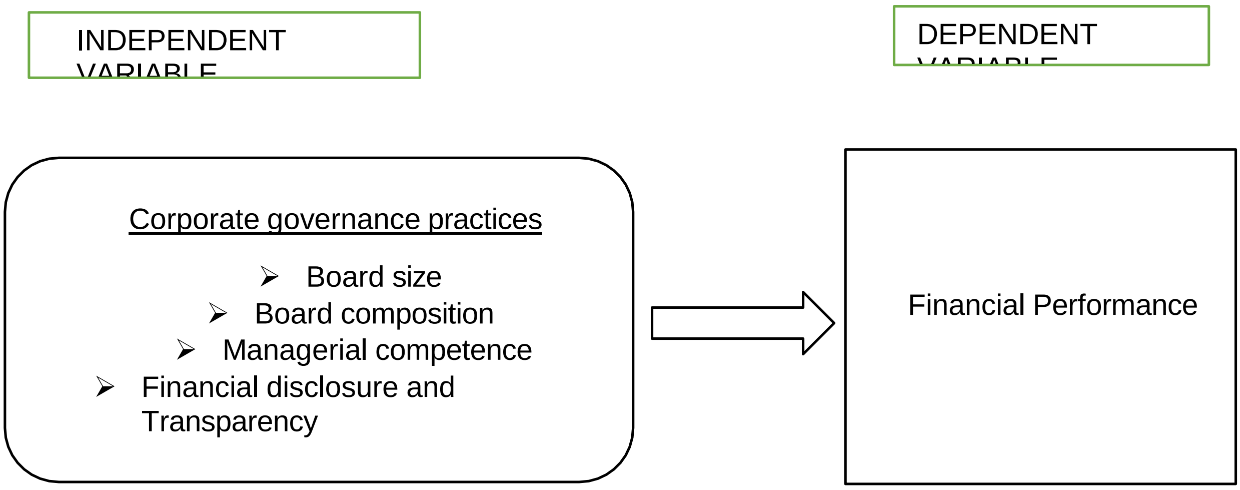

Figure 2.4 - Conceptual framework

2.9 Operationalization of variables

Table 2.1.2: Operationalization of variables

VARIABLE	MEASUREMENT
INDEPENDENT VARIABLE	
Corporate governance practices	Board size, Board diversity, Managerial competence, internal controls, Transparency, Code of ethics
DEPENDENT VARIABLE	
Financial performance	Average Profit

2.10 Research Gap

Although the literature surrounding the relationship between SMEs' financial performance and corporate governance standards is expanding, there are still a lot of unanswered questions when it comes to the particular situation in Zimbabwe. Measuring financial performance, family-owned businesses, industry-specific information and recent economic changes are important concerns that still need investigation.

Average earnings or income from sales is the key indicator of financial performance for SMEs in Zimbabwe. Meanwhile, these could fall short of capturing the complexity of the challenges SMEs face. Alternative metrics that take into account variables like social effect, potential for growth and financial accessibility require more investigation. It's possible that current research falls short in capturing the subtle differences among Zimbabwe's several SMEs sectors. The majority of research frequently concentrates on generic models ignoring the particular difficulties and chances that SMEs in various sectors such as manufacturing, retail, mining and agricultural confront. Furthermore, there have been major improvements to the Zimbabwean economy in recent years. To comprehend how these reforms have affected SMEs' corporate governance procedures and how that has affected their financial performance, more research is required.

Family ownership is a defining feature of SMEs in Zimbabwe. Investigations into the adaptation of corporate governance procedures within these frameworks are necessary taking into account the possibility of conflicts of interest in decision-making.

2.10 Summary

This chapter delved into an array of corporate governance theories offering an in-depth exploration of their underpinnings. Furthermore, it meticulously examined the empirical analyses and conceptual frameworks gleaned from prior research endeavours focusing on the interplay between corporate governance practices and the financial performance of SMEs. The forthcoming section is dedicated to the research methodology adopted for the purpose this research.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The current section elucidates the methods employed for collecting data. In addition, the statistical methods utilized to bolster the findings of the study are discussed under this section. Encompassing aspects such as sampling techniques, data analysis procedures, research design and instruments as well as procedures employed for data collection. It provides a comprehensive overview of the methodological framework underpinning the study's empirical investigation.

3.1 Research Design

As outlined by Hibson (2015), research design serves as a systematic approach facilitating data collection and the examination of findings by researchers. Employing a mixed-methods approach as advocated by Ikebuaku and Dinbabo (2023), both qualitative and quantitative methodologies were utilized in data acquisition. A questionnaire served as the principal instrument for obtaining qualitative data aiming to afford respondents the opportunity to articulate their perspectives freely and comprehensively.

3.2 Population

It refers to a defined group of individuals or entities where samples are selected for the purposes of undertaking a study for instance individuals residing within a particular geographical area as elucidated by (Mugo 2011). The study's population comprised 120 respondents consisting of small business proprietors and employees situated in Kwekwe along with the adjacent communities of Redcliffe and Torwood.

3.3 Sampling

It represents a smaller group of the larger population under investigation exhibiting similar characteristics to the population (Bless et al 2006). Sampling refers to the systematic methodological process employed in choosing a representative sample from the broader population while a sample comprises individuals or entities chosen for research purposes from the overarching population (Mugo 2011). Sampling primarily serves to identify a small number of the total group so as to draw conclusions leveraging demographic similarities. This methodology proves more cost-effective than assessing the entire population (Mugo 2011).

3.3.1 Sampling Method

The researcher employed convenience sampling to select the sample. This method entails the selection of participants based on their convenience to the researcher without adhering to specific selection criteria (Gravetter & Forzano, 2018). Unlike probability sampling methods, convenience sampling does not involve random selection and participants are chosen based on accessibility and practical considerations (Babbie, 2016). For instance the researcher may opt to collect data solely from one city despite the population encompassing multiple cities. In this survey a total of 92 respondents were included as samples.

The following were among the selection criteria used for the sample:

I. At least ten people were employed by the company.

II. The respondents were KweKwe district-based business owners and employees

III. The company has been around for more than five years

The Yamane formula was used to determine the size of the sample as indicated:

$$n = \frac{N}{1 + N(e)^2}$$

Where: n= represents size of the sample

N= represents size of the population

e= margin of error

Therefore n= 120/ 1+120(0.05)^2

=92

3.4 Research Instruments

This section delineates the methodology employed by the researcher to acquire pertinent data or insights typically not accessible through online sources, magazines or published literature (Rusere, 2017). Data was collected through questionnaires and consultations.

3.4.1 Interviews

The researcher employed interviews as a method for data collection. Interviews were utilized to mitigate the risk of obtaining disparate information (Cooper & Schindler, 2014).

3.4.2 Surveys

According to Cooper and Schindler (2014), a survey is an instrument comprising a sequence of inquiries designed to elicit information from a specified population. Distinct attitudes are assigned numerical values on a scale and these values are aggregated to yield insights into the topic under investigation (Leary, 2016). The study incorporated a scale consisting of five attitudes: very small extent, small extent, moderate extent, large extent and very large extent.

Extent Scale

1	2	3	4	5
Very small	Small	Moderate	Large	Very large

Hair (2015) highlights a fundamental advantage of disseminating questionnaires: the data supplied by respondents adheres to standardization and primarily addresses the research inquiry.

3.5 Procedure for data assortment

3.5.1 Select and Drop method

Surveys intended for the target population were distributed across numerous SMEs with collection scheduled for one week thereafter. This timeframe was allotted to afford the target audience adequate time considering their busy schedules to complete the questionnaire without experiencing undue haste.

3.6 Data Analysis

The study will employ both descriptive and inferential statistics in analysing data. Descriptive statistics serve to summarize and organize data (Gravetter & Wallnau, 2007). Measures of central tendency for example median, mean and frequency distributions were utilized to describe central tendencies through descriptive statistics. Various tools including tables, charts and graphs were employed to enhance data comprehension. On the other hand, inferential statistics focus on deducing results to research questions using the limited information provided by respondents. As part of inferential statistics, regression analysis was utilized to explore the relationship between variables.

3.7 Sources of Data

3.7.1 Primary data

Primary data collection employed interviews and questionnaires. Owners or management personnel participated in interviews while questionnaires were administered to general employees. The questionnaire comprised of three sections.

Part A focused a lot on the firms' general statistics including:

I. Size of the workforce
II. Sector in which the firm operates in
III. Level of education
IV. Duration of company’s existence
V. Position held by the employees

Part B of the questionnaire primarily addressed inquiries regarding the corporate governance policies implemented by the SMEs. The focus encompassed aspects namely size and composition of the board, internal controls, managerial competence, adherence to a code of ethics and the extent of financial disclosure and transparency within the organization.

Part C of the questionnaire was motivated by the challenges encountered by SMEs in implementing corporate governance practices. These obstacles ranged from the absence of a clear legal and regulatory framework to ineffective law enforcement measures. During the interview process, owners and management personnel were queried specifically about the difficulties faced in operationalizing corporate governance procedures and policies within their respective organizations.

3.7.2 Secondary Data

The acquisition of literature involved a comprehensive review of scholarly publications, prior research studies conducted by fellow academics and relevant literature pertaining to the study's subject matter.

3.8 Validity and Reliability

To ensure the validity and reliability surrounding research instruments employed for data collection, a thorough examination of the instruments was conducted prior to the commencement of the research. The objective of this analysis was to ensure that the instruments adequately addressed the research objectives and that they did not introduce any biases or predisposed responses. A pilot test was done among colleagues so as to ascertain the authenticity, clarity and reliability of the research tool. Any inconsistencies identified prompted the refinement of certain questions and the removal of others to enhance clarity and precision.

3.9 Summary

This section summarises the study's design including details on the sample size, population and research instruments employed. The subsequent section will be dedicated to the presentation, analysis and discussion of the gathered data.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

The previous section primarily centred on the methodological approach adopted by the researcher emphasizing the procedures employed for data collection. It involved a discussion on data analysis techniques, sampling methodologies, population characteristics, research design as well as the instruments utilized for data acquisition. This chapter will concentrate solely on the outcomes derived from the application of questionnaires and interviews as data-gathering methods.

4.1 Response rate

It describes the proportion of sample constituents that complied with the criteria of the research instruments utilized typically expressed as a percentage relative to the specific study's objectives (Gillis, 2011). Of the 92 questionnaires distributed only 61respondended representing 73% of the total responses. The benchmark for an acceptable response rate typically falls within the range of 65% to 88% (William, James & Kanika, 2014).

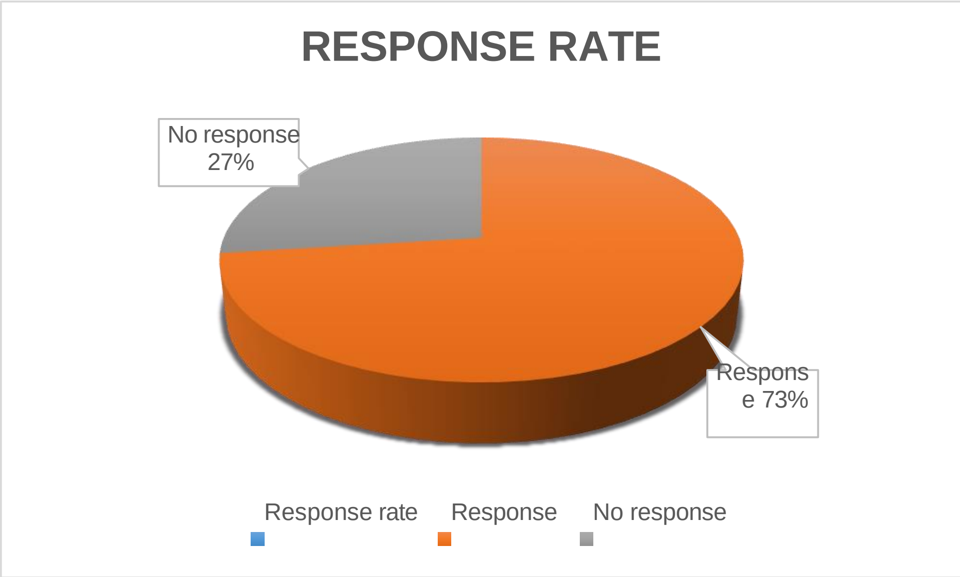

Figure 4.1 - Response rate primary source

4.2 Preliminary data analysis

An overview of the respondents' personal and general information is given in this section.

4.2.1 Position Held

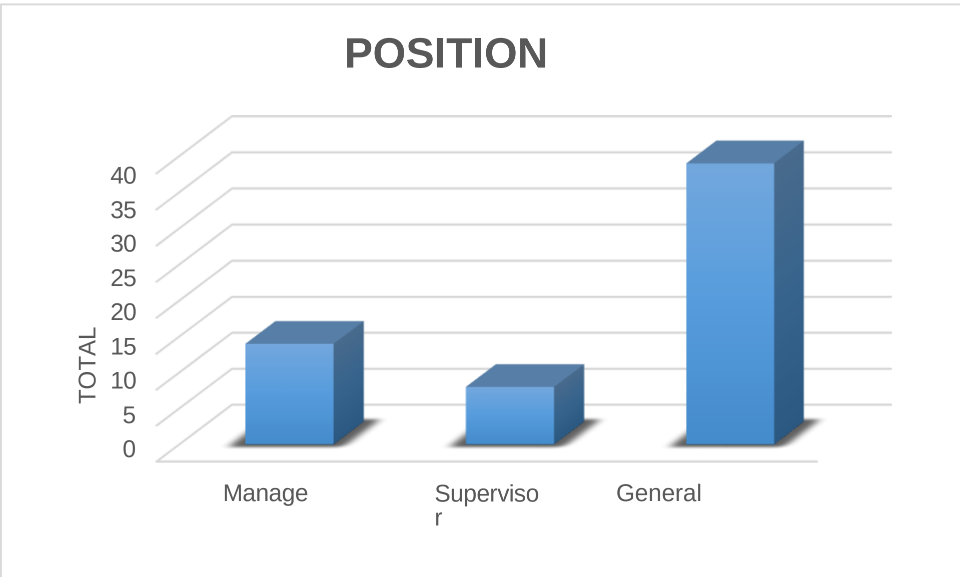

Figure 4.2 - Position held primary source

The depicted graph above illustrates the concentration of leadership roles among a minority of individuals compared to the majority of employees. This concept aligns with the principle of span of control underscoring the notion that a limited number of individuals occupying leadership positions such as managers and supervisors may oversee and manage a substantial number of subordinates. In this scenario the general employees exemplify the larger proportion of the workforce subject to such supervision.

4.2.2 Level of Education

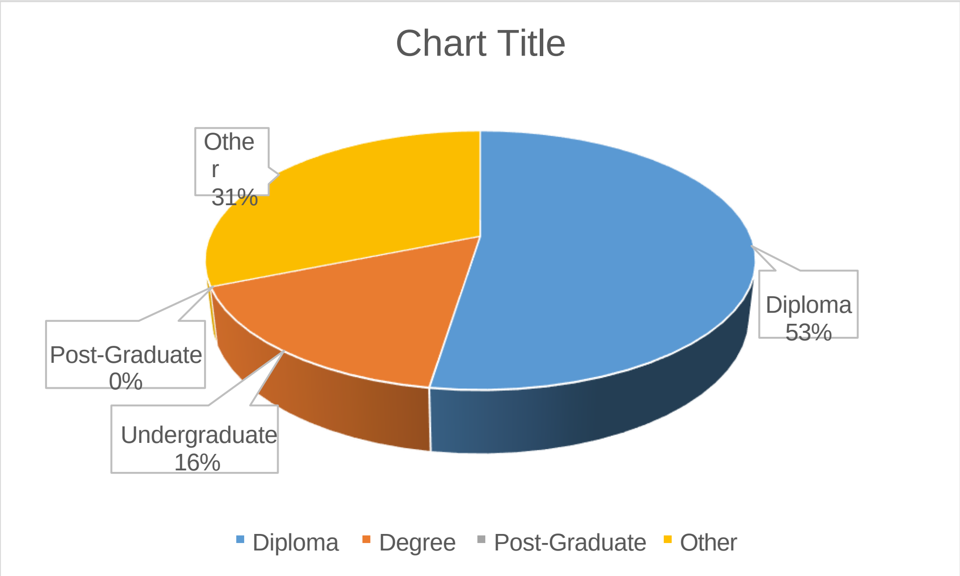

Figure 4.3 - Level of education primary source

The study also considered the educational backgrounds of the respondents recognizing that individuals with higher qualifications are often associated with more reliable outcomes. Educational attainment was segmented into distinct categories encompassing postgraduate, undergraduate, diploma and other qualifications. Analysis revealed that 31% of respondents possessed other qualifications. None held postgraduate credentials and 16% held an undergraduate degree. 53% held a diploma. Profound expertise is indispensable for ensuring the efficient operation of enterprises (Julie, Nadine, Tensi & Benoit, 2014).

4.2.3 Duration of company's existence

Table 4.1 Duration of company's existence

	5_10 years	10_15 years	15_20 years	over 20 years
Frequency	24	18	12	7
Percentage	39%	30%	20%	11%

Table 4.1 Primary Source

As depicted in the provided table majority of SMEs are situated in the launch stage denoting a phase where businesses introduce new products or services to the market. Following this stage, substantial number of SMEs are in the growth phase marked by concurrent increases in profit and sales revenue. Subsequently, a moderate amount of SMEs have reached the maturity stage characterized by declining earnings attributed to a reduction in sales volume. Lastly, few SMEs are experiencing a downturn indicating a loss of competitive advantage that may precipitate business cessation. Ultimately, declining cash flows and profitability pose existential threats, potentially leading to market exit and closure of these enterprises.

4.2.4 Size of the workforce

Table 4.2 Size of the workforce

	10_20 employees	20_30 employees	30_40 employees	over 50 employees
Frequency	39	12	6	4
Percentage	64%	20%	10%	6%

Table 4.2 Primary Source

The European Commission has provided a comprehensive definition of SMEs factoring in criteria such as workforce size, turnover and total balance sheet (Magaisa, 2015). The hierarchical framework of this classification is structured as follows:

1. Micro-enterprises: Companies falling under this category employ a workforce ranging from 0 to 9 individuals.
2. Small enterprises: Characterized by an employee count between 10 and 99.

3. Medium-sized enterprises: Comprises of entities with a workforce spanning from 100 to 499 employees.

Analysing the data presented in the table above, a number of SMEs operating within Kwekwe district align with the micro or small enterprise classification.

4.2.5 Sector in Which the SMEs operate in.

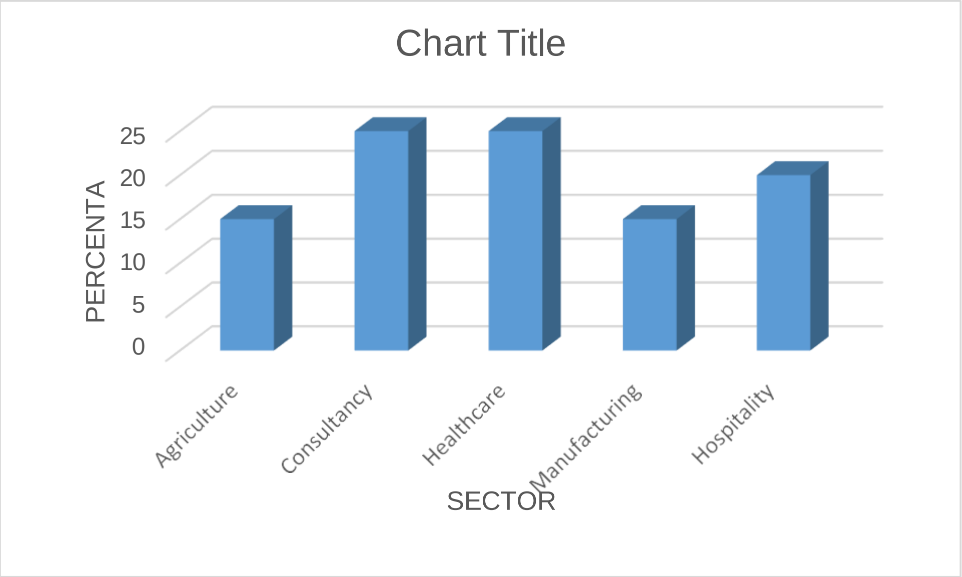

Figure 4.4 - Sector in which SMEs operates in primary source

The data presented reveals that the manufacturing and agriculture sectors command a relatively low industry share each whereas the consulting and healthcare sectors hold on to a larger share. Conversely, the hospitality sector constitutes the smallest portion of the industry. Such insights into the dispersion and concentration of SMEs across various sectors serve to elucidate growth patterns and economic activity within each domain. Moreover, this data facilitates the identification of opportunities for financial investment, employment expansion and overall economic progress within respective industries.

4.2.6 Average profit or loss

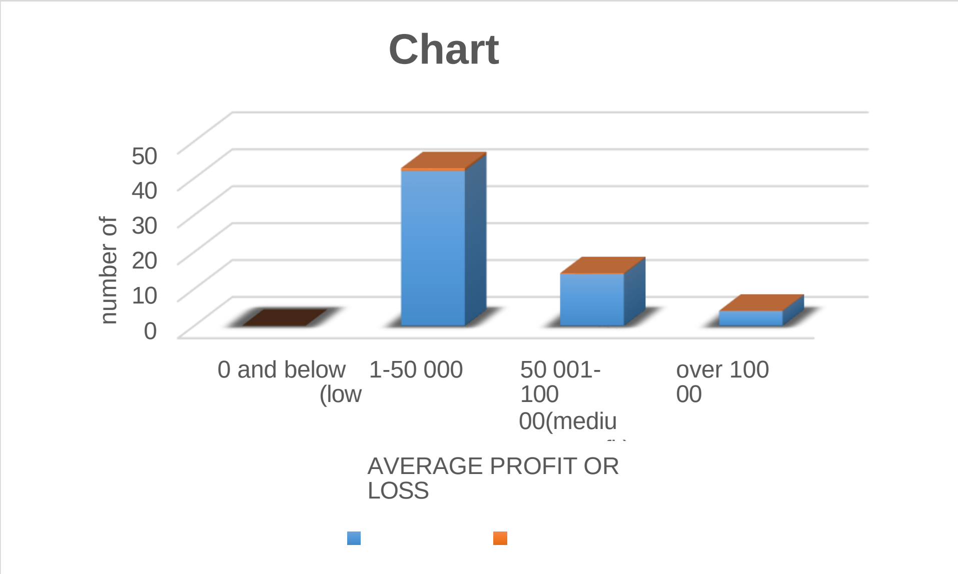

Figure 4.5 - Average profits primary source

The figure above illustrates the average distribution of profits or losses reported by various SMEs. Remarkably, none of the SMEs indicated unsatisfactory profit margins. The predominant pattern observed indicates that the majority of SMEs are generating low profits. A smaller subset of SMEs is reporting moderate while only a minority achieve average earnings which are very high. This depiction underscores the prevailing financial landscape among SMEs shedding light on the varying degrees of profitability within this sector.

4.3 Questionnaire analysis

4.3.1 What are the corporate governance practices put in place by SMEs?

The objective of this investigation was to gain insights into the corporate governance procedures adopted by SMEs.

Table 4.3 Corporate governance practices put in place by SMEs

Corporate governance practices	Mean	Std. Deviation
In regard to the demands of the company today, what is the size of your board of directors?	2.26	1.250
What is your assessment of the board of directors' diversity?	2.46	.886
To what extent is managerial competence in delegating tasks and empowering team members to be accountable of their work?	3.95	1.175
Regarding the company's financial reporting and stakeholder communication, how transparent do you think it is?	2.48	1.421
How well-designed are the internal controls of the organization to reduce risk?	4.07	1.093
To what degree do employees have access to, comprehend and actively follow the company's code of ethics?	3.82	1.133

The mean scores pertaining to board size, board diversity, managerial competence, transparency, internal controls and code of ethics hover around the midpoint of the scale indicating a moderate level of perceived importance attributed to these factors in evaluating corporate governance. Variations in standard deviations across these factors imply differing levels of consensus among respondents with some aspects demonstrating relatively low variability and others exhibiting higher variability in perception.

4.3.2 What are the challenges faced in the implementation of corporate governance practices?

The objective of this investigation was to gain deeper insights into the challenges encountered by small and medium-sized enterprises (SMEs) in the adoption and implementation of corporate governance practices.

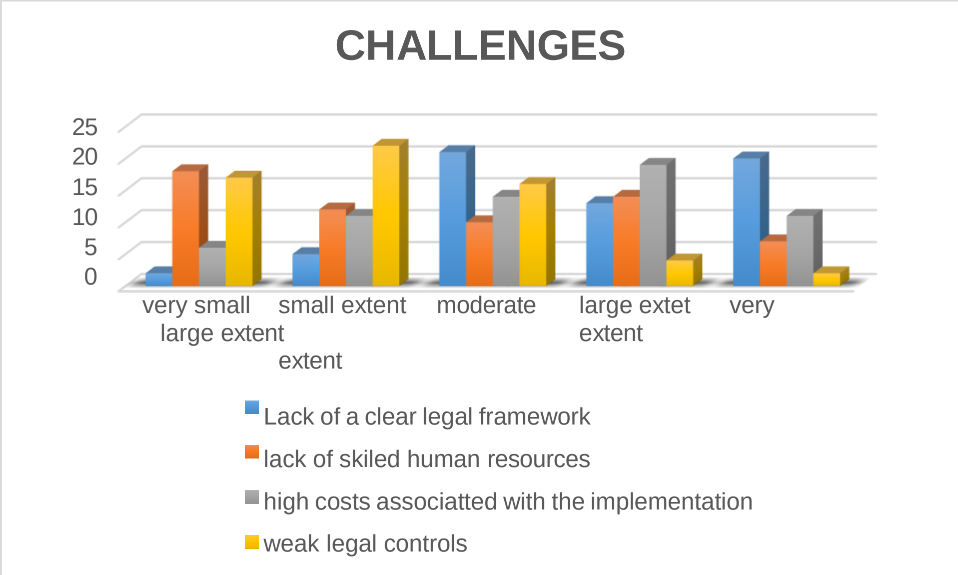

Figure 4.6 - Challenges faced in the implementation of corporate governance practices primary source

The absence of a well-defined legal and regulatory framework is a major challenge in the implementation of effective corporate governance as it may result in inconsistencies and legal ambiguities. Moreover, the frequent alterations in governmental frameworks and regulations impose considerable challenges on SMEs impeding their operational efficacy (Ngwenya & Ndlovu, 2003). While the shortage of trained human resources presents a relatively moderate barrier, it impacts operations by exacerbating labour scarcities thereby hindering the development of small to medium enterprises in Zimbabwe (Nyoni, 2002). Weak legal constraints may inadvertently give rise to legal entanglements. Notably, the substantial costs associated with the adoption and execution of corporate governance principles represent a major obstacle confronting SMEs in this regard.

4.3.3 What is the relationship between corporate governance practices and financial performance?

Table 4.4 what is the relationship between corporate governance practices and financial performance.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.913[f]	.834	.816	.262

Table 4.4 Primary Source

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.641	.153		10.706	<.001
	Board Size	.052	.109	.106	.477	.636
	Board Diversity	.345	.095	.501	3.628	<.001
	Managerial Competence	-.107	.116	-.207	-.922	.361
	Financial Transparency	.229	.096	.534	2.396	.020
	Internal Controls	.362	.121	.648	2.966	.004
	Code of Ethics	.288	.094	.534	3.502	.004

Table 4.5 Primary Source

The R^2 value quantifies the percentage of the dependent variables variance explained by the independent variable (Anderson-Spreacher, 1994). Essentially, it gauges the degree to which the data aligns with the regression model. As depicted in Table 4.3, a positive correlation exists amongst corporate governance practices and financial performance. The R^2 denotes that 83.4% of the variance in financial performance can

be attributed to corporate governance practices with the remaining 16.6% being explained by other factors not encompassed in the study.
Table 4.4 presents the beta coefficients corresponding to the components comprising of corporate governance practices and financial performance.

As per the regression analysis equation mentioned earlier, the projected financial performance of SMEs in Zimbabwe would be 1.641 assuming all other variables remain constant. Furthermore, the results indicate that a one-unit increase in board diversity and size is associated with a respective increase in financial performance when other independent factors are held constant. Conversely, for every unit increase in managerial competency the financial performance of SMEs declines. Additionally, an increase of one unit in financial transparency leads to a rise in financial performance while a similar increase in the code of ethics is associated with an increase in financial performance. These findings align with Afrifa and Tauringana (2015), who observed similar trends among SMEs in the United Kingdom. However, they differ from the conclusions of Bhagat and Bolton (2018), who found no significant influence of board size on financial performance. The findings regarding financial disclosure are consistent with those of Abor and Adjasi (2007), who noted that transparency disclosures contribute to enhancing financial performance.

Overally, the model suggests that SMEs in Zimbabwe exhibit improved financial performance when adhering to corporate governance standards. However, an inverse relationship is observed between financial success and certain practices such as managerial competency which is contrary to the findings of Abor and Adjasi (2007), who emphasized the significance of managerial competence in SMEs' financial performance.

4.4 Directors / Owners assessment of interview questions

4.4.1 How is each director’s and board’s performance assessed?

Respondent 1

Evaluation of attendance a well as engagements to key issues

Respondent 2

Fulfilling the organisations set goals

Respondent 3

Contributions to discussions of major issues

Respondent 4

By making use of personal evaluations

Respondent 5

The assessment is overseen by external consultants

Over ally the respondents dwelt much on personal evaluations, evaluation of attendance to board meetings as well as engaging to key issues.

4.4.2 How do you ensure that all staff is aware and follows corporate governance practices?

Respondent 1

Through conducting regular training sessions on corporate governance practices

Respondent 2

Training new staff on corporate governance practices as part of their orientation

Respondent 3

Establishing a whistle-blowers mechanism to report any irregularities

Respondent 4

Attending workshops and seminars on corporate governance

Respondent 5

Implementing a system of regular communication channels for example news letters and emails

The overall respondents focused on conducting training sessions, attending workshops and seminars on corporate governance, establishing safety mechanism such as whistle blower protection units and lastly establishing clear lines of communication in form staff newsletters.

4.4.3 Have there been any obstacles in establishing corporate governance practices? If yes how did you deal with it?

Respondent 1

Resistant to change and dealt with it through autocratic management style

Respondent 2

Lack of awareness and countered it through education and training

Respondent 3

Limited resources hence the organization had to spend more on investing in corporate governance

Responded 4

Resistant to change and countered it through transactional management

Respondent 5

Lack of awareness hence investing on training of employees so as to have a comprehension of corporate governance

4.4.4 Has there been any governance concern recently to the company?

All the respondents answered to this question with a no.

4.4.5 What compliance initiatives are in place to stop unethical behaviour?

Respondent 1

Implementing strict consequences for unethical behaviour for example termination or legal action

Respondent 2

Conducting training on ethics

Respondent 3

Encouraging and promoting a culture of transparency and accountability

Respondent 4

Establishing clear policies and procedures outlining what is considered unethical behaviour and how it is addressed

Responded 5

Use of punishment in form of suspensions for serious breaches

A brief analysis of the respondents indicate that majority of them make use of punishments such as suspensions or terminations as a way of stopping unethical behaviour. Some have established clear procedures outlining what is and what is not consider ethical.

4.4.6 What measures do you take to guarantee that the corporate governance policies of your firm are regularly assessed in order to comply with regulatory requirements?

Respondent 1

Conducting regular audits

Respondent 2

Implementing a dedicated compliance team or officer responsible for monitoring and updating corporate governance practices

Respondent 3

Establishing regular training for all staff to ensure compliance

Respondent 4

Engaging with legal experts specializing in corporate governance to provide guidance and support in maintaining compliance with regulatory requirements

Respondent 5

Stay informed about updates and changes to regulatory requirements

The respondents had implemented different measures to guarantee that corporate governance practices are regularly assessed such as staying informed on updates, conducting regular audits as well as employing compliance officers to monitor and evaluate the policies.

4.4.7 How do you keep up with the latest developments in corporate governance best practices?

Respondent 1

Attending seminars and workshops focused on corporate governance

Responded 2

Engaging with the experts in the field through discussions

Respondent 3

Exchanging knowledge with peers at networking events

Respondent 4

Attending workshops on corporate governance policies

Respondent 5

Joining industry associations that provide opportunities to discuss and learn about new trends

A brief overview of the respondents entails that most of them attend networking events to learn about new trends as well as engaging with experts in the field of corporate governance.

4.5 Summary

The principal aim of this chapter was to present insights derived from various respondents concerning the impact of corporate governance practices on the financial performance of small and medium-sized enterprises (SMEs) in Zimbabwe. Utilizing regression analysis, frequency tables, pie charts and bar graphs facilitated the synthesis of data and the attainment of desired outcomes. Recommendations and conclusions are expounded upon in the subsequent chapter.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The principal objective of this chapter is to provide a comprehensive overview of the entire study leading to the derivation of findings and recommendations. The summary of key findings and recommendations are based on the outcomes derived from the analysis of both quantitative and qualitative data collected in preceding chapters.

5.1 Summary of Key Findings

The study achieved a response rate of 73% from the distributed questionnaires indicating a satisfactory level of engagement from the respondents.

Employing regression analysis, the research examined the correlation between small and medium-sized enterprises' (SMEs) financial performance and their adherence to corporate governance practices. The findings revealed a notable association between financial performance and various corporate governance facets including board diversity, size, managerial expertise, internal controls and adherence to a code of ethics. A lack of clearly defined legislative frameworks, heightened implementation costs and a scarcity of skilled labour emerged as primary hurdles hindering the widespread adoption of corporate governance practices among the surveyed SMEs.

Despite these challenges, a significant portion of the SMEs demonstrated a proactive approach by implementing key corporate governance practices notably internal controls and adherence to a code of ethics.

5.2 Conclusion

The objectives of the study were as follows:

1. To examine the corporate governance practices employed by SMEs.

2. To look at the challenges faced in the implementation of corporate governance practices.

3. To ascertain whether corporate governance practices and financial performance are related.

As a result the following conclusions were drawn from the findings of Chapter 4:

1. Small and medium-sized enterprises (SMEs) have embraced elementary corporate governance measures notably focusing on internal controls, managerial competence and the adoption of codes of ethics. However, the study underscores potential areas for enhancement within corporate governance particularly concerning facets such as ownership structure and organizational culture.

2. The research highlights significant challenges faced by SMEs in their efforts to implement robust corporate governance practices. A notable challenge is the absence of a well-defined legal and regulatory framework coupled with substantial implementation costs. These barriers pose formidable obstacles to SMEs potentially impeding their ability to fully leverage the advantages associated with effective corporate governance practices.

3. Through regression analysis, the study unveils a noteworthy relationship between corporate governance practices and financial performance among SMEs. The findings underscore the substantial impact that adherence to corporate governance principles can have on SMEs' financial success.

5.3 Recommendations

I. The Ministry tasked with overseeing small and medium-sized enterprises (SMEs) should develop and endorse a comprehensive legislative framework for corporate governance. SMEs should adhere to these guidelines to ensure effective governance practices within their operations.

II. SMEs should consider appointing a dedicated compliance officer or engaging the services of an expert in corporate governance to oversee and enforce adherence to governance standards. This proactive measure can facilitate the effective implementation and sustained compliance with corporate governance principles.

III. In order to mitigate the financial burden associated with implementing corporate governance procedures, SMEs should have access to increased funding opportunities. This financial support can assist SMEs in overcoming the challenges posed by the costs associated with adopting governance practices.

IV. Enhanced educational initiatives and awareness campaigns focusing on intricate aspects of corporate governance such as board diversity, size and financial transparency are essential for SMEs. These educational efforts can empower SME stakeholders with the necessary knowledge and understanding to navigate governance complexities effectively.

Furthermore, future research endeavours should explore the following areas:

I. Given the limitations of average profits as a sole indicator of financial performance, future studies should consider incorporating additional financial performance metrics such as sales revenue and cash flows to provide a comprehensive assessment of organizational financial health.

II. While this study primarily focused on certain corporate governance practices such as board diversity, size and financial transparency, further research is warranted to delve into other governance mechanisms including the role of nominating committees to gain a more holistic understanding of effective governance frameworks within SMEs.

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Appendix I

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

Dear Sir/Madam

REF: REQUEST TO RESPOND TO QUESTIONAIRRE

I am a student named B202291B and I am in my final year at Bindura University of Science Education. I am conducting a study on the research topic**: Effects of corporate governance practices on the financial performance of SMEs in Zimbabwe**. The study is being done as a necessity in satisfying the conditions of a Bachelors of Commerce (Honours) Degree in Accounting. The information you will provide will be held in confidence, will exclusively be utilized for scholarly purposes and will not be unveiled to a third party without earlier authorization from you.

Your assistance is greatly appreciated.

Yours faithfully

B202291B

Contact number: 0773656882

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Appendix II: Research questionnaire

PART A: PERSONAL AND GENERAL INFORMATION

Please indicate with a tick ()

1. Your position
    - ☐ Manager
    - ☐ Supervisor
    - ☐ General employees
2. Level of Education
    - ☐ Diploma
    - ☐ Degree
    - ☐ Post graduate
    - ☐ Other (please specify) …………………….
3. Duration of company's existence
    - ☐ 5-10 years
    - ☐ 10-15 years
    - ☐ 15-20 years
    - ☐ Over 20 years
4. Size of the workforce
    - ☐ 10-20 employees
    - ☐ 20-30 employees
    - ☐ 30-40 employees
    - ☐ Over 50 employees
5. Which sector does your firm operate in
    - ☐ Agriculture
    - ☐ Healthcare
    - ☐ Manufacturing
    - ☐ Consultancy
    - ☐ Hospitality

6. Average loss/ profit range

Average profit/loss	Range ($)
Loss	0 and below
Low profit	1 – 50 000
Medium profit	50 001 – 100 000
High profits	100 000 and above

PART B: CORPORATE GOVERNANCE Practices

Underneath are statements relating to corporate governance practices displayed on an extent scale? Kindly indicate whether you concur or not with the statements by ticking () the appropriate number on the extent scale. Below is an extent scale to assist in your responses.

1	2	3	4	5
Very small	Small	Moderate	Large	Very large

6. To what extent have you implemented the following corporate governance practices? (objective 1)

Corporate governance practices	1	2	3	4	5
In regard to the demands of the company today, what is the size of your board of directors?					
What is your assessment of the board of directors' diversity?					
To what extent is managerial competence in delegating tasks and empowering team members to be accountable of their work?					
Regarding the company's financial reporting and stakeholder communication, how transparent do you think it is?					
How well-designed are the internal controls of the organization to reduce risk?					
To what degree do employees have access to, comprehend and actively follow the company's code of ethics?					

7. To what extent does the following challenges affect the implementation of corporate governance practices? (objective 2)

Challenges	1	2	3	4	5
Lack of a clear legal and regulatory framework					
Lack of skilled human Resources					
High costs associated with the implementation of corporate governance practices					
Weak legal controls and law enforcement					

Appendix III: Interview guide (objective 1&2)

1. How is each director's and the board's performance assessed?
2. How do you make sure that all staff members are aware of and follow the company's corporate governance policies?
3. Have there been any obstacles to establishing corporate governance procedures inside the company? If so what steps did you take to overcome them?
4. Has there been a governance concern recently for the company?
5. Which compliance initiatives are in place to stop unethical behaviour?
6. What measures do you take to guarantee that the corporate governance policies of your firm are regularly assessed in order to comply with regulatory requirements?
7. How do you keep up with the latest developments in corporate governance best practices?

THANK YOU FOR YOUR PARTICIPATION