UNIVERSITY OF CAPE COAST

EFFECTS OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN THE ACCRA METROPOLIS, GHANA

ABRAHAM ANSONG

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BY

ABRAHAM ANSONG

Thesis submitted to the Institute for Development Studies of the College of Humanities and Legal Studies, University of Cape Coast, in partial fulfilment of the requirements for the award of Doctor of Philosophy Degree in Development Studies

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DECLARATION

Candidate's Declaration

I hereby declare that this thesis is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Name: Abraham Ansong

Candidate's Signature:.................................. Date..

Supervisors' Declaration

We hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines of supervision of thesis laid down by the University of Cape Coast.

Principal Supervisor's Name: Prof. John Victor Mensah

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ABSTRACT

Small and medium scale enterprises (SMEs) are well known to be efficient and prolific job creators and they make substantial contributions to developing economies. This study set out to examine the effects of corporate governance on financial performance of SMEs in the Accra Metropolis of Ghana.

A quantitative research approach using simple random sampling procedure was employed to select the sample from each of the eleven sub-metropolises. A total of 500 owners/managers of SMEs were surveyed using a questionnaire. Multiple regression analysis was used to examine the relationships. The study also employed Baron and Kenny's (1986) mediation approach to establish the mediating effects of access to capital and firm reputation on the nexus between corporate governance and financial performance.

The results of the study revealed that, corporate governance variables, except intensity of board activity, had positive and significant effects on financial performance and these relationships were mediated by access to capital and/or firm's reputation. It was recommended that SMEs' owner-managers should improve their corporate governance practices to enhance the credibility and access to capital of these firms which would subsequently lead to better financial performance. They should also improve their stakeholder relations since this turn to boost the reputation of their firms and ease access to external sources of financing.

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DEDICATION

To my wife, Linda, and my children, Kaila and Joel

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LIST OF ACRONYMS

CSR	Corporate Social Responsibility
EU	European Union
GDP	Gross Domestic Product
OECD	Organisation for Economic Cooperation and Development
NBSSI	National Board for Small Scale Industries
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales
SME	Small and Medium Scale Enterprises

CHAPTER ONE

INTRODUCTION

Background to the study

The idea that entrepreneurship and economic growth are very positively connected has undoubtedly been accepted since the early works of Schumpeter (1934). Since 1980, the revival of independent entrepreneurship not only refutes the long-standing Marxist prediction that the small business sector would evaporate, but it also suggests that the more recent Lucas hypothesis of a negative relationship between a country's level of per capita income and its rate of entrepreneurship no longer holds (Abramovsky & Griffith, 2006). Rather, many economists claim that the demise of communist economies was due to the absence of entrepreneurial activity (Acs & Ausdretsch, 1990).

Kayanula and Quartey (2000) identified certain unique strengths of SMEs that make them better channels of development than large enterprises in emerging economies. According to them, SMEs assist in mobilizing funds which otherwise would have been idle; these type of businesses have been accepted as seed-bed for indigenous entrepreneurship; they are labour intensive, employing more labour per unit of capital than large enterprises; they promote indigenous technological know-how; they also rely on mainly local resources, thus have less foreign exchange requirements and finally, they cater for the needs of the poor and adapt easily to customer requirements.

Some scholars have viewed small entrepreneurial firms as vehicles to enrich an economy's key competitive advantage through their diversified new ideas, and noted that both small firms and entrepreneurship are a necessary element in the achievement of long-run macroeconomic prosperity (Acs, Carlsson & Karlsson, 1999; Hu & Chen, 2009). Henderson (2002) determined that entrepreneurs significantly impact local economies by fostering localized job creation, increasing wealth and incomes, and ultimately helping to connect local economies to the larger global economy.

According to the OECD (2003), entrepreneurship accounts for between 20 and forty percent of total productivity growth in eight selected OECD countries, therefore supporting the idea that entrepreneurs represent one of the driving forces of economic growth and development. Developing countries have generally come to acknowledge the SME sector as the key driving force for growth due to the employment opportunities it creates (Hu, 2010).

In emerging economies, it is estimated that SMEs employ about twenty-two percent of the adult population (Daniels & Ngwira, 1993; Daniels & Fisseha, 1992; Fisseha, 1991; Fisseha & McPherson, 1991). In Ghana, this sector is viewed as a significant source of employment creation and national revenue through taxation (Kayanula & Quartey, 2000; Keskin, 2006; Abor & Quartey, 2010). Abor and Quartey (2010) posit that SMEs contribute about seventy-five percent to Ghana's GDP and also account for eighty-five percent of employment in the manufacturing sector. But more importantly within the context of development, a growth in this sector has a relationship with poverty alleviation (Landes, 1998; Gebremariam, Gebremedhin & Jackson, 2004).

Given the important roles entrepreneurs and SMEs play in economic growth and development, it would be imperative for governments, policy makers and academics to undertake research to unearth conditions necessary for their continuous survival and prosperity. Hence, one of the motivations for this research is to assists SMEs appreciate the need to implement corporate governance ideals in their business operations. Both resource-based theory and resource dependency theory posit that resources, tangible or intangible, are needed for the success of business organizations.

Yet, a key feature of Sub-Saharan Africa is that the amounts of bank credit available to the private sector remain very low when compared with the phenomenon in other developing countries, with South Africa and Mauritius being the only notable exceptions (Biekpe, 2004; Sacerdo, 2005). Among other factors, the lack of managerial competencies and proper governance systems have been identified to have thwarted efforts at attracting such finance and thus are deemed to be some of the main barriers to SME performance (Gockel & Akoena, 2002; Abor & Biekpe, 2007). Abor and Biekpe (2007) reasoned that the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms explains the reluctance of financial institutions to advance credit to SMEs.

For instance, Tagoe, Nyarko and Anuwa-Amarh (2005) assessed the effect of financial sector liberalization policies on the financial management of SMEs in Ghana using six case studies; they found that the decision of investors to invest in SMEs depends on their perception of risk concerning these firms and other available alternative investment opportunities. These findings suggest that, arguably, corporate governance which enhances transparency and risk reduction could lessen the 'credit drought' of SMEs and thereby improve their financial performance.

Considerable evidence further exists to establish the link between effective governance, access to credit and improved firm performance (Kasekende & Opondo, 2003; Brown & Caylor, 2006; Su & Sun, 2011; Dube, Dube & Mishra, 2011; Nakiyingi, 2012). For example, Brown and Caylor (2006) found a higher valuation, higher profitability and higher dividends payments for better-governed firms. Therefore, corporate governance is hypothesized to have a relationship with the financial performance of SMEs. Dube, Dube and Mishra (2011), reported that good governance improves SMEs' prospect of obtaining funds from banks, investors and venture capitalists. They also contend that firms that have greater transparency or information disclosure tend to have healthier growth rates and ratios of ordinary profits to that of capital, than firms who do not do so.

Hence, corporate governance has a role in SME performance since it improves transparency and attracts capital at a cheaper cost (Spanos, 2005; Yurtoglu & Claessens, 2012). The need to understand how corporate governance affects the financial performance of SMEs, which is viewed as one of the least researched areas in corporate governance studies (Yacuzzi, 2005; Yacuzzi, 2008; Clarke, 2006; Abor & Adjasi, 2007; Abor & Biekpe, 2007; Kohler and Deimel, 2012), is the main motivation for this study.

A few researchers have attempted to investigate the relationship between corporate governance and SME performance (Switzer & Kelly, 2006; Abor & Biekpe, 2007; Kyereboah-Coleman & Amidu, 2008, Al-Najjar, 2009; Switzer & Mingjun, 2009; Hamad & Karoui, 2011; Gill, Mand & Mathur, 2012). In these prior studies, various variables such as board size, composition and independence; CEO duality; foreign ownership; age of director and other human capital factors were employed as measures of corporate governance. Although, most of the findings established a significant relationship between these variables and SME performance, the present study critique the aptness of most of these indices of corporate governance employed in the SME studies, especially within developing countries.

This study is situated within the argument that corporate governance measures in SME research, especially in developing countries, should be tailored to suit the special characteristics of these firms. Indices employed must cluster around the multi-tasking manager of these businesses, whether they are the owners of such entities or not. Cole, McWilliams and Sen (2001) opined that the most critical issue still left unexamined in corporate governance studies, is the application of different governance mechanisms whiles being mindful of the structure and the environment within which such firms operate. Therefore, the thrust of this study is to advance measures of corporate governance deemed appropriate for SMEs in developing economies and establish their relationship with their financial performance.

Statement of the problem

The difficulty in accessing funds has been identified as a major challenge confronting small and medium-sized business in developing countries (Biekpe, 2004; Sacerdo, 2005). Among other causes of this phenomenon, some empirical studies have identified managerial incompetence and poor governance systems in the SME sector as some of the major drivers of this problem in Ghana (Gockel & Akoena, 2002; Abor & Adjasi, 2007). Abor and Adjasi (2007) found that the problems of credit constraint and managerial incompetence in the Ghanaian SME sector could be overcome with good corporate governance systems in place.

Nevertheless, in spite of the large number of empirical research conducted during the past decades in larger firms (e.g. Jensen & Meckling, 1976; Jensen, 1986; Shleifer & Vishny, 1997; Black, 2001; Klapper & Love, 2004; Bebchuk, Cohen & Ferrell, 2006; Duke & Kankpang, 2011), there are still important areas of corporate governance still unexplored, such as the application of corporate governance in emerging economies (Yacuzzi, 2005) and the adaptation of indices suitable to the nature and environment of SMEs in developing economies (Cole, McWilliams & Sen, 2001).

Although corporate governance has been accepted as having a significant role at improving SMEs, efforts so far at studying corporate governance in this sector tend to take the tried and tested 'variables' developed in large businesses and compressed to fit SMEs based on agency theory (e.g., Abor & Biekpe, 2007; Kyereboah-Coleman & Amidu, 2008; Al-Najjar, 2009; Hamad & Karoui, 2011; Gill, Mand & Mathur, 2012). Also, none of these studies have comprehensively examined the mechanisms through which corporate governance indicators influence the financial performance of SMEs. These are important gaps in literature this study seeks to address.

Several authors admit that the governance of SMEs have special characteristics and challenges such as family ownership and management, a lack of strict separation between owners and managers, insufficient material, financial and human resources and the management of particular family issues such as dispute resolution and succession planning (e.g., Yacuzzi, 2005; Clarke, 2006). Further, smaller firms tend to have more concentrated leadership, whilst in larger firms control may be more diffuse, or more subject to question by a larger board (Fama & Jensen, 1983; Begley & Boyd, 1987). Therefore, stewardship theory which assumes that managers are altruistic and do not need monitoring role of boards would underpin this study instead of the agency theory.

In spite of the critical role of governance in the development of a market economy, SMEs are possibly at a disadvantage to obtain the necessary resources and develop a corporate governance structure. Hence, it should be expected that in general, SMEs would have simpler corporate governance structures than large firms (Mallins, 2010). Clarke (2006) recommends specific and simple SME governance arrangements that reflect their particular form and architecture. These forms include the predominance of family based firms with a strong crossover between managers and owners. This provision should also recognize the largely fictional notion of separation in SMEs that is, in fact, more opposite for large and listed firms. Previous studies have not also investigated the influence of SMEs' stakeholders on their governance and financial performance. The stakeholder theory argues that firms that have a strategy for engaging with stakeholders perform to the highest standards in terms of financial performance (Partridge, Jackson, Wheeler & Zohar, 2005).

Following the discussions above, the challenge in SME governance is about how to customize the principles of corporate governance to accord with the peculiarities of their nature. It is imperative to recognize that good corporate governance is based on principles underpinned by consensus and continually developing notions of good practice. There are no absolute rules which must be adopted by all organizations (CPA Australia, 2005). Hence, Yacuzzi (2008) constructs a governance indicator for SMEs employing indices focusing on general principles of governance, stakeholders and board's work.

Dube et al. (2011) postulated eight other variables (i.e., the preparation and publication of mission statements of enterprises; the presence of enterprise policy statement to manage business growth; enterprise succession plan; annual management and accomplishment statements; management structure and level of professional qualification relevant to industry; method of accounting and disclosure of audited account; stakeholder relations and welfare undertaken by the enterprise; and legal and regulatory compliance) as being the most important measures of corporate governance in SMEs after studying the nature of these enterprises in India.

Closely related to that, Kohler and Deimel (2012) identified four-building blocks for company-specific corporate governance in SMEs as ensuring cultural and managerial continuity, creating clear management structures, using business and managerial control instruments and providing guidelines for long-term financing. Finally, Garg and Weele (2012) postulated executive remuneration and control; ethics; risk management; succession planning and corporate social responsibility.

While these other studies provided understanding into the kind of variables necessary for SME governance, the limitations of some of the identified measures within the context of developing economies are their invisibility and immeasurability. Jennings and Beaver (1995) found that managerial activities in small firms are normally an 'adaptive' process that has little similarity to the classical approaches that define what managers do in more conventional terms. Therefore, the competency approach would serve as the construct to cater for the requirements of these variables. This approach has become an increasingly popular means of studying entrepreneurial characteristics (Minet & Morris, 2000; Man, 2001; Sony & Iman, 2005).

The deliberate focus on the competencies of the entrepreneur/manager is significant for studies on SMEs since these individuals assume all major roles in these businesses (Gils, 2005). Small and Medium Scale Enterprises (SMEs) in the Accra metropolis are heterogeneous group-ranging from small workshops making furniture, metal parts and clothing to medium-sized manufactures of machinery as well as service providers such as restaurants, consulting and computer software firms. Some are traditional 'livelihood' enterprises that are satisfied to remain small; others are growth-oriented and innovative (Ghana Statistical Service, 2005). The performance and survival of these enterprises have been the focus of a number of recent reports in Ghana, which call for new strategic directions if SMEs wish to sustain their competitiveness and financial success in the future (Ohene-Konadu, 2008).

Hence, this study contributes to the rare studies on corporate governance in SMEs by adapting SME-specific variables and empirically establishing their relationships with financial performance in these firms. It further explores the mediating influence of access to capital and firm reputation on such nexuses.

Objectives of the Study

The main objective of this study was to determine the effects of corporate governance on the financial performance of small and medium scale enterprises in the Accra metropolis of Ghana. The specific objectives were to:

1. Establish the relationship between board size and the financial performance of SMEs;
2. Examine how the intensity of board activity affects the financial performance of SMEs;
3. Examine the relationship between managerial competence and the financial performance of SMEs;
4. Examine the relationship between strategic competence and the financial performance of SMEs;
5. Establish the relationship between corporate social responsibility practices and the financial performance of SMEs;

6. Examine the effect of SMEs' stakeholder engagement on their financial performance;
7. Establish the mediating effect of access to capital on the relationship between corporate governance and SMEs' financial performance;
8. Establish the mediating effect of firm reputation on the relationship between corporate governance and SMEs' financial performance;
9. Make recommendations to aid policy and practical issues on corporate governance and SMEs' financial performance.

Research Hypotheses

The following hypotheses guided and assisted in achieving some of the objectives of the study:

H1a: Board size is significantly related to the financial performance of SMEs.

H1b: The relationship between board size and financial performance is mediated by access to capital.

H1c: The relationship between board size and financial performance is mediated by firm reputation.

H2a: The intensity of board activity is significantly related to the financial performance of SMEs.

H2b: The relationship between intensity of board activity and financial performance is mediated by access to capital

H2c: The relationship between intensity of board activity and financial performance is mediated by firm reputation.

H3a: Managerial competence is significantly related to the financial performance of SMEs.

H3b: The relationship between managerial competence and financial performance is mediated by access to capital.

H3c: The relationship between managerial competence and financial performance is mediated by firm reputation.

H4a: Strategic competence is significantly related to the financial performance of SMEs.

H4b: The relationship between strategic competence and financial performance is mediated by access to capital.

H4c: The relationship between strategic competence and financial performance is mediated by firm reputation.

H5a: There is a significant relationship between corporate social responsibility activities and financial performance of SMEs.

H5b: The relationship between corporate social responsibility and financial performance is mediated by access to capital.

H5c: The relationship between corporate social responsibility and financial performance is mediated by firm reputation.

H6a: There is a significant relationship between stakeholder engagement and financial performance of SMEs.

H6b: The relationship between stakeholder engagement and financial performance is mediated by access to capital.

H6c: The relationship between corporate social responsibility and financial performance is mediated by firm reputation.

Significance of the study

Effective corporate governance can assist SMEs overcome their major challenge of accessing funds from financial institutions (Abor & Adjasi, 2007). The findings of this study would contribute immensely in focusing policy formulation on the relevant measures of corporate governance within the SME sector. This would improve the relevance of such policies in improving the business success of these enterprises. The growth of the SMEs sector in Ghana has significant impact on job creation and overall national development.

The appreciation and adoption of corporate governance principles by owners/managers of SMEs would provide some amount of protection for investors in this less regulated sector. Investors, either in large or small businesses, do not only expect that their investments would be protected but also that these investments would generate adequate, if not satisfying, returns. Empirical investigations on corporate governance practices in SMEs could assist investors make prudent decisions in order to achieve these dual aspirations.

Furthermore, the study would serve as literature that would add to academic knowledge in the area of corporate governance in small and medium sized businesses in Ghana. Finally, it would provide insight to support future research regarding the implementation and practices of corporate governance and its importance in the survival and success of SMEs within the context of developing countries.

Scope of the Study

The scope of the study was restricted to SMEs in the Accra metropolis of Ghana. A study of this nature should have involved almost all SMEs in the country irrespective of their locations. However, the study was restricted to SMEs in the Accra metropolis of Ghana due to financial and time constraints required to complete the entire thesis. Secondly, the study did not address the bi-causal relationship between corporate governance and financial performance. It concentrated on understanding the mechanisms through which individual corporate governance indicators affect SMEs' financial performance through mediational analysis. It is possible that financial performance could also influence the effectiveness of corporate governance.

Finally, given that the SMEs sector in Ghana has less-developed corporate governance structures, the study relied on "soft indicators" of corporate governance. The study makes no reference to important topics in "classic governance", such as ownership structure, property rights and protective covenants for investors. It does not also deal either with tunnelling, soft-budget constraint or opportunistic rents. Yacuzzi (2008) argues that these topics are presently not so critical for SMEs.

Organisation of the study

The study is organised into seven chapters. Chapter One was the introduction, which focused on the background to the study, statement of the problem, objectives of the study, research questions, hypotheses, significance of the study as well as the study area.

Chapter Two deals with the review of theoretical and empirical studies related to the study. It also covers the theoretical underpinning for corporate governance studies. Chapter Three presents the relationship between corporate governance and firm performance as well as the conceptual model for the research, which examines the link between the main constructs of corporate governance and financial performance of SMEs. It caters for the influence of the mediating and control variables.

Chapter Four focuses on the research methodology of the study. It examines the research process, which includes the research approach, research design, study population, sample and sampling procedure, measurement of variables, research instrument, pre-testing, data collection, data preparation and data analysis. Chapter Five and Chapter Six present results and discussion. Finally, Chapter Seven is devoted to the summary, conclusions and recommendations as well as areas for future research.

CHAPTER TWO

CORPORATE GOVERNANCE INDICES FOR SMALL AND MEDIUM SCALE ENTERPRISES

Introduction

This chapter reviews literature on corporate governance and financial performance of small and medium scale enterprises (SMEs) with the view of highlighting the weaknesses in some of the measures employed in previous studies and also providing justification for the need for SME-specific corporate governance indices. It provides the theoretical basis for the study and clarifies key concepts, ideas and related models of the topic under investigation.

Definition of Small and Medium Scale Enterprises

The term ‘small and medium scale enterprise’ does not usually have a single universally acceptable definition (Storey, 1994). Many authors (e.g. Steel & Webster, 1990; Barrow, 1998; Kayanula & Quartey, 2000; Abor & Adjasi, 2007) have given various definitions of SMEs both globally and in Ghana. Some have employed measures of size (number of employees, turnover, profitability, net worth, value of fixed assets, etc.) to explain this concept.

While most definitions of an SME relate to number of employees in an enterprise, reaching a consensus on the exact number of employees that would appropriately fit an SME has proved complicated and problematic (Jenkins, 2006). The numbers employed this far vary from fewer than 100 (Graafland et al, 2003), 250 (Spence et al, 2003; Moore & Spence, 2006), 500 (Bessera & Miller, 2000, Thankappan et al., 2004; Hitchens et al., 2003) and 800 employees (Gomolka, 1978) in most developed economies. Others have a bigger size cut-off criterion; for instance, The American Small Business Administration once defined a manufacturing firm as small if it employed fewer than 1,500 people (Storey, 1994).

The European Commission has defined an SME as an enterprise with less than 250 employees and has sales less than €40 million per annum or balance sheet total less than €27 million. In addition, the business must be independent i.e. separate from an economic group that is stronger than the SME (European Commission, 2002). The Commission has differentiated between micro, small and medium sized firms as shown in Table 1.

Table 1: **European Commission definition of small and medium scale enterprise**

Enterprise category	Head count	Turnover €Million	Balance sheet total €Million
Medium sized firms	<250	Up to 50	Up to 43
Small firms	<50	Up to 10	Up to 10
Micro firms	<10	Up to 2	Up to 2

Source: European Commission (2002)

In view of the existing capacity of Ghanaian SMEs, in terms of staff count and capital base, the above definitions do not suit their peculiarity. Hence, the Ghana Statistical Service (2003) viewed firms with less than 10 employees as small scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. The problem with this definition is that it fails to distinguish small firms from micro ones as well as medium from large firms.

The National Board for Small Scale Industries (1990) in Ghana, however, applies both the fixed asset and number of employees' criteria. It defines a small scale enterprise as one with not more than 9 workers with plant and machinery (excluding land, buildings and vehicles) value not exceeding GHS1000.00. Those with workers exceeding 9 and plant and machinery value exceeding GHS1000.00 are deemed to be medium to large size enterprises. Kayanula and Quartey (2000) cautions that the process of valuing fixed assets in itself could pose a problem. Also, the continuous depreciation in the exchange rate often makes such definitions out-dated. Therefore, this study defines SMEs as enterprises with less than 100 employees, whereby, a medium sized enterprise employs between 11 and 99 people and a small firm employs between 5 and 10 people.

SMEs in Ghana can be categorized into urban and rural enterprises. The former can be sub-divided into 'organized' and 'unorganized' enterprises (Kayanula & Quartey, 2000). Kayanula and Quartey (2000) cautions that the organized ones tend to have paid employees with a registered office whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home and employ little or in some cases no salaried workers. This group also include rural enterprises largely made up of family groups, individual artisans and women engaged in food production from local crops.

This study concentrates on 'urban-organized' SMEs because they have the highest potential for growth and expansion required to stimulate economic and social development and well-being (Lingelbach, de la Vina & Asel, 2005). As demonstrated above, there is huge variability amongst SMEs, based on such factors as sector, age and history of the business and geographical location (Sweeney, 2009). As a result, it is expected that the approach to corporate governance is also likely to vary among SMEs.

The corporate governance regulatory framework in Ghana highlights the neglect of the SME sector. For instance, the Companies Code, 1963 (Act 179) regulates limited liability companies without any concession for SMEs. The framers of the code simply assumed that SMEs like large companies have the resources to adhere to every provision in the code. However, even in developed economies like the UK where the Combined Code 2008 is applicable to all UK listed companies, some exceptional consideration have been made for smaller companies (Mallins, 2010).

Similarly, the Securities and Exchange Commission (SEC) provides corporate governance guidelines for the regulation of only listed firms on the Ghana Stock Exchange. SMEs are yet to be listed on the Ghana Stock Exchange. The Securities Industry Law, 1993 (PNDCL 333) as amended by the Securities Industry (Amendment) Act 2000 (Act 590), also provides for the governance of all stock exchanges, investment advisors, securities dealers, and collective investment schemes licensed under the Securities and Exchange Commission. Besides these, the Banking Act, 2004 (Act 673) and the Insurance Law are the other industry-specific regulations in operation. In addition to the above sources of regulation, there are other voluntary codes of good corporate governance including the Ghana Corporate Manual, Institute of Directors (Ghana) Code of Ethics for Directors and the Ghana Business Code. None of the above codes or laws, however, specifically addresses the unique needs of SMEs in corporate governance (Bokpin & Nyarko, 2009).

Meaning of Corporate governance

Many historians have generally traced corporate governance to Adam Smith's theory of capitalism (Morck & Steier, 2005; Tricker, 2005). In its simplest form, capitalism concerns itself with the production, distribution and maximization of capital. Fundamentally, whether individuals would directly invest in trusted firms (shareholder capitalism), family-oriented firms with good reputation (family capitalism) or indirectly invest in businesses through banks (bank capitalism) or the state (state capitalism) in order to maximize their capital depends on quality and structures of corporate governance (Mock & Steier, 2005). Capital is attracted to firms and businesses that can protect and maximize its use, hence, the need for efficient corporate governance structures to be put in place for this purpose.

From literature, corporate governance originated largely from developed countries with a high degree of variations across these countries based on their unique experiences of economic and financial developments (Herrigel, 2006). In recent history, however, the Asian crisis of 1997 and the relative poor performance of the corporate sector in sub-Saharan Africa have made corporate governance a dominant policy issue in developing economies as well (Bokpin & Nyarko, 2009).

According to Herrigel (2006), the common thread in the historical accounts is that literature on corporate governance has underscored the relevance of corporate governance to understanding the historical dynamics of firm performance and economic development. Maher and Anderson (1999) opined that in an era of increasing capital mobility and globalization, corporate governance has become an important framework condition affecting the industrial competitiveness of companies and is one key element of improving micro-efficiency.

Several authors have given varying definitions to the concept of corporate governance (Shleifer & Robert, 1997; Zingales, 1998; Apreda, 2003; Claessens, 2003). Claessens (2003) posits that these definitions can be grouped into two. The first set of definitions addresses the behavioural patterns of firms such as measures of performance, efficiency, growth, financial structure, and treatment of shareholders and other stakeholders while the second set deals with the rules under which firms are operating (normative framework).

Claessens (2003) further argues that for studies of single countries or firms within a country, definitions concerning themselves with behavioural patterns of organizations are the most logical choice. These studies consider such matters as how board of directors operate, the influence of executive compensation on firm performance, the link between labour policies and firm performance, and the role of multiple shareholders.

Some definitions of corporate governance have been specific on the interest at stake. Under a definition tailored towards the attainment of the charter of organizations, the focus has been on measures that would be supportive of this objective. For instance, Apreda (2003a: 4) defined corporate governance “as the efficacious pursuit of goals and missions that item from the fundamental charter and statutes of the organisation”. This definition can be deemed appropriate only on the assumption that the fundamental charter and statutes of business organisations meet the principles of proper corporate governance.

Others have been concerned with how to protect the providers of capital from expropriation from insiders. For example, Shleifer and Vishny (1997) viewed corporate governance as the means by which investors (suppliers of finance) to corporations assure themselves of getting a return on their investment. This definition is also too narrow as it fails to address the concerns of other claimholders of business organisations beyond investors. The interest of investors could easily be met through the exploitation of employees, the neglect of environmental and safety standards and/or the provision of poor quality products and services to consumers. Such an achievement is not at par with corporate governance ethos.

A somewhat broader definition of corporate governance should incorporate structures and systems that would ensure the continuous and effective operation of a business concern even in the absence of owners. Zingales (1998: 5) defines corporate governance as “the complex set of constraints that determine the quasi-rents (profits) generated by the firm in the course of relationships and shape the ex post bargaining over them”. This definition adequately addresses the need for rules and institutions to determine how firms maximise their value as well as ensure equitable contribution of such firms towards all stakeholders (Claessens, 2003). This implies that, corporate governance can and should be extended to cover corporate social responsibility and the business environment as a whole.

The recent corporate governance debate in SME studies is the extent to which a researcher can employ indices suited for larger firms when investigating corporate governance issues within the SME sector. Clarke (2006) asserts that SMEs are the forgotten participants in corporate governance discourse. This is because the ‘corporate governance market’ is essentially targeted at listed and other public companies. It is taken for granted that rules, norms and best practice, applicable to large and listed firms, will somehow magically trickle down to SMEs, but no provision or practical guidance are offered for the multi-tasking managers of SMEs.

The internationalization of the concept has also generated considerable debate over the transferability of best practices (Aguilera & Jackson, 2003, CPA Australia, 2005). Fernando (2006) has identified three dominant categorizations of corporate governance best practices based on models of Anglo-American, German and Japanese.

In spite of the wide application of these models of corporate governance across several countries, the traits of firms that they seek to address differ within the context of SMEs in developing countries. For instance, with respect to ownership structure, in the Anglo-American model, the ownership of companies is more or less equally divided between individual shareholders and institutional shareholders while in both the German and Japanese models, banks and financial institutions have a substantial stakes in the equity capital of companies. Besides, cross-holding of firms is common in Japan (Fernando, 2006).

None of the above attributes fits the ownership structure of SMEs in Ghana. Hence, these models need to be adjusted to suit the peculiarities of SMEs in Africa. Therefore, the operational definition of corporate governance in this study is basically the system by which business organisations are directed and controlled (The Cadbury Committee, 1992).

Theoretical Underpinnings of Corporate Governance

Literature on corporate governance has derived most of its philosophical foundations from several theoretical traditions. Predominantly among which include: the agency theory; the stewardship theory; the stakeholder theory; the resourced-based theory and the resource dependency theory. Contrary to previous studies that were based on agency theory, the stewardship theory is the main theory underpinning this study while the others play a complementary role. A discussion of each of these main theories is presented in the following sub-sections.

Agency Theory

The conflicting interest between shareholders and managers, normally referred to as the 'agency problem' (Berle & Means, 1932) has given rise to several mechanisms to address the costs associated with such relationships. These costs can broadly be classified into monitoring expenditure by the principal; bonding costs by the agent and residual loss due to the varying interest between the principal and agent (Kyereboah-Coleman, 2007). Jensen and Meckling (1976) define the agency relationship as a contract under which one party (the principal) engages another party (the agent) to perform some service on their behalf. As part of this agreement, the principal delegates some decision-making authority to the agent.

The thrust of agency theory is that because there is a separation of ownership and management or control of an enterprise, governance structures must be in place to safeguard the interest of the owners. Management could not always be trusted to act in the best interest of the owners and the enterprise. Arising from this problem is how to induce management to act in the best interest of owners. Hence, the need for the establishment of corporate boards to bridge the gap between owners and managers to address the agency problem (Kyereboah-Coleman, 2009).

Agency theory is a very influential research area to explain and mitigate the problems in the relationships between shareholders and management as well as other stakeholders in a company. Despite its huge impact, there are a number of criticisms. First, the underlying logic of agency theory is that business organizations are poorly managed (Ghoshal & Moran, 1996). This is not always the case in the SME sector as entrepreneurs tend to interpret business success or failure as personal success or failure. Hence, they cannot afford the cost of mismanaging entities that sometimes represent their entire life savings.

Moreover, agency theory is based on the assumption of a certain human nature (i.e. greed), which may not always be the case (Ghoshal & Moran, 1996). Again, among SMEs greed and opportunistic behavior are rarer because of the lack of separation between management and ownership. Concerns about CEO duality and tenure are also muted because of the unique ownership structure of SMEs. Joint ventures, partnerships and employee-owned firms are popular form of ownership configurations in SMEs. Firms with such ownership structures may have particularly active boards, but the board members are most often the partners. Such structures do have their distinctive governance mechanisms and practices (Gulati & Westphal, 1999; Goodall & Warner, 2002) that must be acknowledged. Therefore, there is the need to examine the application of the stewardship theory within the SMEs' context.

Stewardship theory

A counter theory to the agency theory is the stewardship theory. While agency theory is based on the assumption that management could act selfishly to satisfy personal financial aspirations, stewardship theory is built upon the altruistic nature of humankind. Stewardship theory recognizes the role of non-financial motivators such as the need for achievement; recognition; authority and responsibility, and gaining of satisfaction through the performance of duties (Donaldson & James, 1991).

The theory postulates that management do not behave opportunistically, but rather wants to do a good job and therefore rejects the lack of trust between shareholders and managers as advanced by agency theory. In view of the fact that SMEs are usually managed by owners, it would be reasonable to assume that the argument of the stewardship theory is more applicable than the logic advanced by agency theory.

According to Kyereboah-Coleman (2007), the stewardship theory considers, among other things, the concentration of the powers of a CEO and board chair in the same individual to reduce bureaucracy and quicken decision making as the ideal for effective governance. This recommendation is very much applicable to SMEs. In essence, the stakeholder theory entrust the governance of businesses largely to owner-managers who must then develop the right systems to achieve this feat. First, they need to sharpen their personal managerial and strategic competencies to enable them play this role. These competencies are important organisational resource for attaining competitive advantage and good financial results (Thompson, et al., 2013).

Secondly, they need the right team to complement them in areas where they lack the know-how and resources. Hence, besides regulatory requirements, SMEs need boards more for their strategic, advisory and resource acquisition roles, rather than for their monitoring roles. Finally, corporate governance principles place a duty on managers to ensure that every firm operate in an honourable manner, provide good working conditions for employees, encourage workforce diversity, be a good steward of the environment, and actively work to better the quality of life in the local communities where it operates and in society at large (Thompson, Strickland, Gamble & Peteraf, 2013). Hence, there is the need to also review the stakeholder theory.

Stakeholder theory

Since Freeman's (1984) seminal work on stakeholder theory, it has become widely acceptable in management scholarship (Mitchell & Agle, 1997; Rowley, 1997; Metcalfe, 1998). Donaldson and Preston (1995) observed that, the idea that corporations have stakeholders has become commonplace in management literature. Stakeholder theory is viewed as an alternative to shareholder theory (Spence & Schmidpeter, 2003).

While the shareholder theory asserts that organisations exist to satisfy the interest of their shareholders, the stakeholder theory admits that most firms generally have a large and integrated set of stakeholders (Cochran, 1994) to which they have an obligation and responsibility. It contends the view that shareholders deserve more attention than other stakeholders of an organisation (Freeman & Reed, 1983).

Hence, the stakeholder theory challenges the financial theories that assert that firms should concentrate only on creating and improving the economic interests of shareholders, the residual owners of the firm (Orts & Schulder, 2002). Heath and Norman (2004) argue that there are several claimants on the firm and shareholders are merely one of such claimants. Therefore, the stakeholder theory addresses the need to balance the claims of shareholders with those of other stakeholders (Ruf et al., 1998).

Deck (1994) accepts the position of financial theories that the purpose of the organization is to create wealth and distribute this among investors. However, he expands the meaning of investors to include other groups such as employees, government and society who make investments in organizations in the form of knowledge, skills and infrastructure. Post et al. (2002) define stakeholders as individuals and constituencies that contribute, either voluntarily or involuntarily, to a firm’s wealth-creating capacity and activities and are therefore its potential beneficiaries and/or risk bearers. Stakeholders provide subtle resources such as social acceptance as well as more obvious contributions such as capital, labour and revenue (Sweeney, 2009). Halal (2000) argues that these resources are greater than the financial investments of shareholders by roughly a factor of ten.

The risks that confront various stakeholders are not only financial exposure but can include employment and career opportunity (i.e. in the case of employees), the quality of products and services (i.e. in the case of customers/consumers) and environmental impact (i.e. in the case of government and society) (Post et al., 2002; Lorca & Garcis-Diez, 2004). If the firm goes into bankruptcy, employees do not only lose their jobs but often their retirement package and health benefits as well.

According to the contribution of justice principle, in tandem with the contributions offered by stakeholders and the risks they are exposed to, it is expected that the profits of the firm should be divided among those bearing risk within the organization, in what so ever form (Sweeney, 2009). Hence, the theory embodies all structures and systems (i.e., effective risk management practices, active boards, competent management, etc) that will ensure the continuous existence of a profitable firm and the equitable distribution of any gains among various stakeholders. It particularly stresses on the relevance of corporate social responsibility and stakeholder engagement.

The other important way to ensure that businesses become successful in order to cater for the expectations of various stakeholders is through the acquisition and management of resources. This position is informed by resource-based and resource dependency theories.

Resource-based theory

Resource-based theory is grounded in the idea that a firm's internal environment, including its resources and capabilities, is more critical to the determination of strategic decision making than is the external environment. It argues further that a firm's unique resources and capabilities provide the basis for a strategy that thoroughly exploits its core competencies relative to opportunities in the market (Prahalad & Hamel, 1990; Hamel & Prahalad, 1994).

The most important resources in business organizations are largely the intangible resources, such as the ideas, talent, and creative capacities of the workforce (Castells, 2001; Robinson, 2001). Resource-based view studies have acknowledged the particular value of intangible resources, since they are the only kind of resources potentially capable of meeting the resource-based criteria of being valuable, rare, and costly to imitate (Michalisin, Kline, & Smith, 2000).

The basic thrust of resourced based theory is that, the mix, type, amount and nature of a firm's internal resources would influence the type of strategies a firm can devise to achieve sustainable competitive advantage. In classical corporate governance literature, the import of resource-based theory is interpreted to mean that the dichotomy between executive and non-executive directors is irrelevant (Kyerboah-Coleman, 2007). Within the context of SMEs governance, the theory supports the need for building entrepreneurial competencies and teaming up with experienced persons to boost the internal resources of firms even where formal boards may not be instituted. Peteraf and Barney (2003) advanced that research underpinned by the resource-based view needs to refocus on the dynamics of managerial processes that are central to building and sustaining a competitive advantage. What managers do at the level of the firm, and why and how they do it, are central questions for organizational performance.

In spite of the numerous contributions of the resource-based view, researchers suggest that the theory can be augmented by a consideration of the business processes through which resources become valuable (Priem & Butler, 2001; Ray, Barney, & Muhanna, 2004). Therefore, efforts to refocus research attention on the dynamics of managerial processes in resource based view research is a worthwhile agenda since resources alone are not a source of competitive advantage; they become valuable only through the actions of managers engaged in business processes (Porter, 1991).

Resource dependency theory

Resource dependency theory argues that the long-term survival and success of a firm is dependent on its abilities to link the firm with its external environment (Pfeffer & Salancik, 1978). A basic argument in the theory is that firms constantly must interact with their environment, either to purchase resources or to distribute finished products. Firms should therefore seek to gain control over their environment to create more stable flows of resources and lessen the effects of environmental uncertainty (Pfeffer & Salancik, 1978).

Although agency theory is the predominant theory used in the research on boards of directors (Johnson, Ellstrand, & Daily, 1996; Zahra & Pearce, 1989), this is the area of resource dependency theory's greatest research influence. Pfeffer (1972) asserts that boards enable firms to minimize dependence or gain resources. Prior reviews of the board of directors literature conclude that resource dependency theory is supported more often than other board perspectives (e.g., Johnson et al., 1996; Zahra & Pearce, 1989), including agency theory. Thus, although resource dependency theory is less commonly used to study boards than agency theory, empirical evidence to date suggests that it is a more successful lens for understanding boards.

Earlier studies (Pfeffer, 1972, Pfeffer & Salancik, 1978) using resource dependency theory to examine boards focus on board size and composition as indicators of the board's ability to provide critical resources to the firm. Several studies also explore the relationship between board size and firm performance as an indicator of a successful resource dependence strategy. Meta-analyses by

Dalton, Daily, Johnson, and Ellstrand (1999) compile these and find a positive relationship between board size and firm financial performance. Pfeffer and Salancik (1978) suggest that directors bring four benefits to organizations: (a) information in the form of advice and counsel, (b) access to channels of information between the firm and environmental contingencies, (c) preferential access to resources, and (d) legitimacy. Although resource dependency theory-based studies of boards represent a strong research stream, as mentioned earlier, it has been hindered by applications of agency theory. The mounting empirical evidence in support of resource dependency and boards, however, bodes well for the future health of the resource dependency theory stream.

Indices of SME Governance

This section highlights the weaknesses of some of the measures of corporate governance adapted from large firms for the study of SME governance and thus, justifies the need for the indices employed in this study. The variables used include board of directors/advisors, corporate social responsibility, stakeholder engagement, managerial and strategic competence of managers.

Board of directors/Advisors

A considerable amount of research on the importance, role and responsibilities of board of directors has been undertaken within the corporate governance field. This body is viewed as one of the major component in the governance framework, influencing firm performance (Pearce & Zahra, 1992;

Johnson, Daily & Ellstrand, 1996; Forbes & Milliken, 1999; Hillman & Dalziel, 2003). In the past, the vast majority of research in this area was conducted in a large firm context (Charkham, 1995).

However, current researchers and managers also acknowledge the importance of well-functioning boards of directors in small and medium-sized private firms, as good governance practices seem to result in the creation of firm value, improved company structures, financial results and firm continuity (Zahra & Pearce, 1989; Borch & Huse, 1993; Johannisson & Huse, 2000). As early as in 1948, it was postulated that boards can be tapped for advice and counsel, thus pointing to the value boards can add to smaller businesses (Mace, 1948).

Corporate governance originated from the need to address the ‘agency problem’ between owners and managers in large and listed firms. Therefore, some researchers assert that SMEs are the forgotten participants in corporate governance discourse (e.g., Clarke, 2006). Some researchers also easily assumed that variables employed in larger firms can be conveniently adopted for the study of governance issues in SMEs (e.g., Abor & Biekpe, 2007; Kyereboah-Coleman & Amidu, 2008; Al-Najjar, 2009; Hamad & Karoui, 2011; Gill, Mand & Mathur, 2012).

The underlying assumption of most of these studies, built on agency theory, is that greater board independence would be positively associated with firm performance because of the role of the board in shielding shareholders from managerial self-interest (Jensen & Meckling, 1976). However, the unique attributes of SMEs, especially in developing countries, flaws the accuracy of such analysis. First, SMEs are not characterised by a strict separation between ownership and management (Yacuzzi, 2005, Clarke, 2006), rather, they are largely owned and managed by family members (Yacuzzi, 2005, Clarke, 2006) with only a few 'outside' investors (mostly, creditors/bond holders not equity holders) in some rare cases.

Hence, the nature of the 'agency problem' is different from those of large firms. Indeed, 'the agency problem' is regarded as too western and much of a problem for larger firms than smaller ones (e.g., Aguilera & Jackson, 2003). It behoves on owner-managers to be altruistic as underpinned by stewardship theory because the attainment of their personal financial and non-financial aspirations (Donaldson & James, 1991) is usually tied to the success of these enterprises.

In spite of the likely absence of moral hazards, investors in these smaller firms would be concerned about the efficient management of these firms to ensure both survival and profitability. Also, the benefits of effective corporate governance such as ease to credit from investors and financial institutions make it worthwhile for these firms to adapt the principles of corporate governance (Abor & Adjasi, 2007) which includes the presence of boards.

It is also factual that there may be separation of ownership from management among some SMEs. Hence, the presence of board of directors is deemed cardinal in corporate governance studies in both large and small sized firms (Kyereboah-Coleman, 2009). Some empirical studies confirm the rareness of board of directors among SMEs. For instance, Gils (2005) found that, even among Dutch SMEs, entrepreneurs/managers were the key decision makers and only two-thirds of the CEOs had created top management teams and less than half of the firms studied had adopted supervisory boards.

In the absence of possible opportunistic behaviour on the part of management in SME setting, it is logical to argue that the constitution and operation of board of directors would be different from those of larger firms. Hughes (1995) posits that corporate boards are becoming more active in the performance of the corporate governance roles, and the challenges faced by these boards are becoming more numerous. Yet small corporations, although they have great need for them, are less likely to have effective boards, for cost and style reasons.

Boards of smaller firms can be augmented by an "advisory council" of selected experts with inside knowledge of the small company. The increasingly important issues of business ethics and social responsibility impinge on small and large corporations alike, and boards can be invaluable in responding to such issues (Hughes, 1995).

Similarly, Mallins (2010) postulates that SMEs graduate from the use of the non-binding advice and guidance of family councils to board of advisors and may only set up formal board of directors where family relationships are impeding their efficient operation and development, or even if family members just realize they are no longer managing the businesses effectively as they might.

This study, therefore, focuses on the size and networking activities as well as the working style of the SMEs' board (whether they be family council, board of advisors or formal board of directors) rather than on such matters as board composition and independence, CEO duality or tenure. Short, Keasey, Wright, and Hull (1999) opined that it is an error to overemphasize the monitoring role of boards, and that more emphasis should be paid to the skills and other knowledge resources directors can bring to the firm.

Dube et al. (2011) argued that although literature across the SME sector supports the induction of outside professional managers to improve corporate governance, that proposition is an unsustainable one. First of all, it might invite agency problem and cost which may not be absorbable within the limited management and capital structure of the enterprise. Second, the scope of inviting professional manager within the sector is very limited due to the dominant business forms they assume (e.g. proprietorship and partnership firms).

Third, there would always be a strong (mis)trust that professional manager would take away the control of business from the owner. Fourth, there is limited professional training available with the existing training institutes pertaining to SME sector. So, instead of appointment of outside professional manager, the existing managers should be exposed to professional training and development.

Corporate Social Responsibility

Corporate social responsibility (CSR) refers to the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with employees, their families, local community and society at large to improve their quality of life in ways that are good for business and sustainable development (World Bank, 2004).

There is the tendency to view the concept of corporate social responsibility as a complex notion developed for only large firms. However, some researchers have argued that SMEs are better positioned to perform these social roles better than even large firms. According to Sarbutts (2003), SMEs are much flexible and better placed than major corporations to take advantage of the changing needs of society. Compared to large firms, they are less formal and bureaucratic and can therefore direct resources to CSR activities without too much administration requirements. SMEs have also been known to build strong relationships with stakeholders because they are closer to their stakeholders and managers are actively involved with CSR and stakeholder management (Metzler, 2006). Perrini (2006) established that 50 percent of European SMEs are engaged in socially responsible activities. However, the degree of involvement is determined by the size of the enterprise, ranging from 48 percent amongst the very small enterprises to 65 percent and 70 percent amongst the small and medium sized enterprises.

Within a developing country context, Malkumani and Munasighe (2012) sought an initial insight to the nature, perception and the extent of the application of the CSR concept among SMEs in Sri Lanka. The results revealed that the majority of firms believe that they should pay attention to their social and environmental responsibilities. Some of the most common examples of CSR in SMEs include donating to local causes and charities, sponsorship of local events and organizations, support for local schools and colleges, environmental initiatives, ethical purchasing and staff related activities (Worthington et al., 2006).

The stakeholder theory, to a great extent, provides the theoretical basis for the study of CSR even among SMEs (Sweeney, 2009). Toyne (2003) found that seven out of eighteen SMEs surveyed defined CSR as “the organisations responsibility to its stakeholders”. Similarly, Jenkins (2006) posits that SMEs in the UK implicitly or explicitly described their CSR efforts along the lines of stakeholder theory.

The intent focus of both CSR and corporate governance on stakeholders defines their interrelationship. Kar (2000) observes that a fundamental objective of corporate governance is the enhancement of shareholder value, whilst protecting the interests of other stakeholders. Jamali, Safieddine and Rabbath (2008) identified other links between these concepts. According to these authors, both corporate governance and CSR place a demand on companies to pursue their fiduciary and moral responsibilities towards stakeholders. This act of accountability is necessary to both attract and retain financial investors (Page, 2005). Thus, transparency, accountability, and honesty serve as the same source of strength for both disciplines (Van den Berghe & Louche, 2005).

Jamali et al. (2008), postulate that both disciplines do confer important long-term benefits that enhance the survival of the business. With respect to corporate governance, they observed that good governance mechanisms align the aspirations of owners, managers, and all those dependent on the corporation, allowing corporations to secure long-term capital, retain the confidence of financiers, and to use the obtained capital proficiently. On the other hand, CSR in turn increases the trustworthiness of a firm and strengthens relationships with core stakeholders (Aguilera, Rupp & Ganapathi, 2007), which may lead to decreased transaction costs and increased attractiveness in the eyes of investors (Hancock, 2005).

To reiterate the synergies and relationship between CSR and corporate governance, three models have been expounded by Jamali et al. (2008), capturing corporate governance as a pillar for CSR; CSR as an attribute of corporate governance, and corporate governance and CSR as coexisting components of the same continuum. Finally, OECD (1999) basic principles of corporate governance include catering for the need of other stakeholders which is best served through CSR and stakeholder engagement (See Table 2).

Stakeholder Engagement

From the discussions on CSR, stakeholder engagement obviously becomes an important indicator of stakeholder-oriented corporate governance. While CSR maybe merely concerned about what firms can offer to its stakeholders, most times in a philanthropic gesture, stakeholder engagement is interested in how businesses integrate and understand stakeholders better in order to make better decisions and deliver superior service (Partridge, Jackson, Wheeler & Zohar, 2005).

From the perspective of stakeholder theory, maximization of the financial interest of shareholders of businesses is no longer viewed as the main concept of a firm. Rather, it goes much beyond and focuses more on ensuring sustainable business. The motives of business enterprises should also be towards the benefit of the employees, consumers, creditors and society at large. Further, its activity should be environment-friendly and towards the protection of basic human rights (Dube et al., 2011).

Freeman (1984) is accredited with the introduction of the stakeholder concept. The author views a company's stakeholders to consist of any group or individual who can affect or is affected by the achievement of a firm's objectives. Stakeholders can be divided into primary stakeholders and secondary stakeholders. Primary stakeholders have interests that are directly linked to the fortunes of a company. They include shareholders and investors, employees, customers, suppliers, and residents of the communities where the company operates. Some theorists have also added individuals and groups that speak for the natural environment, non-human species, and future generations to this list (Wheeler & Sillanpää, 1997).

Secondary stakeholders, on the other hand, have indirect influences on an organization or are less directly affected by its activities. They include the media and pressure groups, and others that inhabit the business and social networks of the organization (Swendsen, Boutler, Abbot & Wheeler, 2002). While there may be different kind of stakeholders in SMEs due to the varying nature of these enterprises themselves, the identification of key stakeholders is, however, consistent. They are employees, customers, the environment and local community (Jenkins, 2004; Thompson & Smith, 1993).

The fundamental thrust of the King I (1992), King II (2002) and King III (2009) reports on corporate governance in South Africa is for the inclusion of stakeholder approach to corporate governance. The King II Report opined that by adopting good governance practices, managers can significantly improve shareowner value in an organisation. However, organisations not only need to be well-governed, but also need to be perceived in the market as being well-governed. The board's responsibilities in the inclusive stakeholder approach are therefore to define the purpose of the organisation and the values by which the organisation will perform its operations and to identify the stakeholders relevant to the business of the organisation.

All these factors must be included in the corporate strategy and must be implemented by management. The board must also ensure that there is effective communication with stakeholders for its strategic plans and ethical code. The King III Report also specifically addresses the inclusive stakeholder approach to corporate governance. This study adapts Yacuzzi (2008) governance approach which focused on stakeholders in the SME sector. In this approach, governance must align the diverse interests among several stakeholders through the work of directors and top management.

TABLE 2: Basic Principles of Corporate Governance

OECD principles	Description
Protection of shareholders' rights	Entails the protection of shareholders and maintaining investor confidence at all times in ways of ensuring the continuous inflow of needed capital.
Equitable treatment of shareholders	Entails the equitable treatment of all equity investors, including minority shareholders.
Protection of stakeholders' rights	Entails the skilful consideration and balancing of the interests of all stakeholders, including employees, customers, partners, and the local community.
Accurate disclosure of information	Entails the accurate and timely disclosure of clear, consistent, and comparable information in good times and bad times.
Diligent exercise of board responsibilities	Board elections should be totally free from political interference and board members should exercise their responsibilities diligently and independently.

Source: Organization for Economic Cooperation and Development (OECD) (1999).

Entrepreneurial Competence

The link between corporate governance and human capital has attracted the attention of several economists in recent times (Odaki & Kodama, 2010). They are of the opinion that corporate governance, the way a firm is owned and controlled, is interrelated with human capital investment. Dore (1973) concluded that corporate governance is interrelated with human capital accumulation after conducting a comparative study of Japanese and British companies.

The theoretical basis of the complementarity between corporate governance and the quality of human capital is based on the theories of economic institution developed by Aoki (1988) and Aoki and Okuno (1996). According to their theories, the firm is a nexus of contracts, and the nature of a firm's subsystem such as human capital or corporate governance is not determined independently but in relation to other sub-systems because of their complementarity (Odaki & Kodama, 2010).

The competency approach is also employed as an indicator of corporate governance. Entrepreneurial competencies can be explained as the underlying characteristics such as generic and specific knowledge, motives, traits, self-images, social roles, and skills which result in venture birth, survival, and/or growth (Bird, 1995). Some of these competences are required to implement governance issues of tactical/operational nature (managerial competence) while others are needed to tackle strategic governance concepts (strategic competence).

Managerial Competence

This study defines managerial competence as the personal-oriented and task-oriented skills and knowledge that are associated with effective management and leadership and the use of formalized practices to ensure effective functioning of enterprise operations (Caglino & Spina, 2002; Martin & Staines, 1994).

Jennings and Beaver (1995) asserts that, one of the primary ingredients in small business success must be the managerial competence of the owner/manager. They also indicate that managerial activity in small firms is categorized as an "adaptive" process that has little similarity to the classical approaches that define what managers do in more conventional terms. Hence, the work-oriented approach of competence is adopted by identifying activities that are central to good corporate governance and then transformed into personal attributes.

For example, regulatory compliance is an essential parameter for good governance practices. Regulation is said to have occurred when a government exerts control over the activity of individuals and firms (Roemer, 1993). The compliance of law ensures that external governance strengthens the internal governance structure (Dube et al., 2011). The extent of compliance with regulations can influence both the performance and longevity of a business enterprise. Regulations on SMEs take different forms; it may be regulations governing business start-up, regulations governing business activity, regulation on labour practices, payroll changes, health and safety standards, taxation and foreign trade (Quartey, 2001).

In a similar vein, Dube et al. (2011) theoretically demonstrated that the preparation and publication of annual management and accomplishment statements could assist interested groups to be vigilant about the enterprise performance and the factors which could affect projected growth. They argue that the use of simple and standard accounting procedures and software bring more professionalism and transparency in the financial practice and in the accounting methods in the SME sectors. It is important to emphasise that ensuring transparency in firms is one of the cardinal concerns of corporate governance.

In addition to the above, the earlier work of Berle and Means (1932) on 'agency problem' established the link between risk management and corporate governance. Corporate governance and risk management are both concerned with ways of solving or mitigating the conflicting interests of various stakeholders (Knight, 2006). Knight (2006) posits that the sustainability of company's performance is highly depended on the effective role of both concepts. The element of control is one of the corporate governance roles, while a controlled environment is developed from the risk management process.

The function and objective of both corporate governance and risk management is to maximize shareholder value (Sobel & Reding, 2004). They are connected to assist organizations to better understand risks, to improve and deliver its objectives and to mitigate, assess, and manage risk in an appropriate manner (Manab, Kassim & Hussin, 2010).

Recent accounts on company failures, corporate scandals, and frauds are among the reasons for companies effectively implementing risk management programmes. These companies' failures have been blamed on poor risk management and corporate governance. For example, in the East Asian financial crisis in 1997, weak corporate governance and poor risk management have been found as the main factors of companies' failure (Mitton, 2002).

Strategic Competence

Strategic competence is the ability to apply planning skills in dealing with various functional areas with a strategic orientation (Lau et al., 1999). In essence, these competencies deal with the knowledge, ability and skills in dealing with organizational issues from a broader and long-term perspective (Man, 2011). Competences in strategic planning have also been associated with effective corporate governance.

For instance, enterprise succession management plan if determined in advance, giving appropriate weightage towards professional qualifications and experience in the relevant business can enhance corporate governance among SMEs (Dube et al., 2011). Burkart, Panunzi and Shleifer (2002) postulated that a crucial issue in the discussion of family-oriented firms from the perspective of corporate governance and finance is succession. Hence, succession planning is one of the most pressing issues for SME's within the corporate governance sphere (Garg & Weele, 2012).

Succession planning increases the availability of experienced and capable employees that are prepared to assume roles as and when they become available (Charan, Drotter, Noel, 2001). Therefore, the absence of succession plans will undermine the professional skills or leadership required and may pose a challenge towards the growth and sustainability of the enterprise. Mallin (2010) views succession planning as an important tool in the context of raising external equity because, once a family business start to seek external equity investment, then shareholders will usually want to know that succession planning is in place.

Besides succession planning, the entrepreneur is expected to chart the vision of the enterprise (Durkham et al., 1993; Mitton, 1989; Snell & Lau, 1994), translate this vision into mission statement and objectives that would define the reason(s) for the existence of the business and the targets to be achieved within specified periods. Following these, they are required to also formulate and implement strategies to achieve these objectives and overall vision.

The SME sector is dominated by informal organizations and in informal organizations as well as the small private and public companies, the organizational mission is not usually specified and work is more on ad hoc arrangement. So, it is difficult for any outsider (internal and external stakeholder) to contemplate its future course of actions. Hence, the presence of a mission and vision statements would serve as an organizational objective statement in the public domain which would deter the organization from taking adhoc future course of action relating to organizational future development and stakeholder management. Further, it will also provide the policy regarding stakeholder management (Dube et al., 2011).

Similarly, Wickham (1997) posited that the mission statement provides a good, succinct response to the question “What is your business about?” and an effective and informative answer to this question demonstrate professionalism, instils confidence and engenders commitment. However, given that tangible mission and vision statements are rarely available in SMEs (Wickham, 1997; Dube et al., 2011), most stakeholders may necessarily have to depend on the strategic competence of managers of these entities to predict the future course of actions to be undertaken.

All things being equal, it is expected that managers with higher strategic competencies are less likely to pursue adhoc future actions that would derail the potential development and progress of their enterprises (Man, 2011). Romano et al. (2000) also suggested that strategic planning can act as soft information for SMEs and this soft information can help ease the opaqueness issue in SMEs, thus giving them easier access to financial resources.

Review of SME Governance studies

Following the justification of the indices of corporate governance employed in this study, this section reflects on some empirical studies on the effects of corporate governance and SME performance. It highlights the variables employed in these studies amidst their weaknesses.

First, Abor and Biekpe (2007) sought to assess how the adoption of corporate governance structures affects the performance of SMEs in Ghana. Regression analysis was used to estimate the relationship between corporate governance and ownership structure and performance. The study showed that board size, board composition, management skill level, CEO duality, inside ownership, family business, and foreign ownership have significantly positive impacts on profitability.

A year later, Kyereboah-Coleman and Amidu (2008) examined the link between corporate governance practices and financial performance of SMEs in Ghana. They employed two levels of interaction to achieve these objectives. The first was an interview for a general understanding of governance issues in the SME sector and the second was the design of a questionnaire for an exploration of the linkages between governance issues and firm financial performance by employing a linear model. The study revealed that governance structures in SMEs were jointly influenced by credit providers and business ethical considerations. The regression results showed that board size, size of audit committees, corporate ethics and the proportion of outsiders on the audit committees have negative impact on financial performance while independence of the board and the presence of audit committees enhance firms' financial performance.

Al-Najjar (2009) examined the impact of board size and independence on the financial decisions of SMEs in UK. The research covered the time span from 2000 to 2009, and employed a cross sectional-time series regression model. The study found independent directors as a good monitoring tool over the firms' financial decisions. This role was however more significant only in big SMEs.

Lappalainen and Niskanen (2009) investigated the impact of ownership structure and board composition on the performance of Finnish SMEs by employing independent t-test to compare the means of various groups. The results suggest that the ownership structure affected both the growth and profitability of small firms. Firms with high managerial ownership levels exhibit higher profitability ratios, but have lower growth rates. The results on board structure suggest that board structure has little impact on the performance of small firms. The only significant result indicated that firms with outside board members rather have lower growth rates and are less profitable.

Hasson, Liljeblom and Martikainen (2009) further examined the relationship between profitability and the performance of Finnish family SMEs through regression models and found a positive effect associated with a family CEO. Board size was significantly negatively associated with firm performance. The proportion of family members employed by the firm also exhibited a negative effect especially for return on investment (ROI).

Hamad and Karoui (2011) analysed the corporate governance and SME financial performance utilizing ownership structure, qualification of directors, the duality of leader and board size. A sample constituting of 50 Tunisian SMEs were analyzed by employing multiple regression analysis. External directors, qualification of directors and board size had a positive effect on SME financial performance.

Using survey research (a non-experimental field study design), Gill, Mand and Mathur (2012) studied the link between corporate governance and the growth of small business service firms in India. They found that the growth of small business service firms in India is positively associated with CEO tenure, CEO duality, number of board meetings, and total assets, and negatively associated with the board size.

Arosa, Iturralde and Maseda (2012) studied the efficiency of board of directors as a corporate governance mechanism among 307 non-listed Spanish SMEs. They examined the effect of board composition, size, activity, leadership structure and CEO tenure on firm performance. Arosa et al. (2012) found that the presence of outside directors did not result in improved firm performance. Secondly, despite the numerous theoretical benefits, such as monitoring, advising and networking capacity attributed to outside directors, their sample showed a significant presence of insider directors endowed with greater knowledge with a positive effect on strategic planning decisions. By implication, the number rather than the composition of board of directors can be deemed as the appropriate measure of corporate governance among SMEs.

Besides the arguments raised against variables such as board structure and independence, CEO duality and tenure in SME studies, the major shortfalls in the above studies relate more with the absence of certain measures (e.g., managerial and strategic competence of the owner-manager; stakeholder engagement) deemed relevant in these studies.

Only Abor and Biekpe (2007), Kyereboah-Coleman and Amidu (2008) and Hamad (2011) partially addressed the issue of managerial competence of SME managers with indices such as managerial skill level, audit committees and qualification of directors, respectively. In the same vein, only Kyereboah-Coleman and Amidu (2008) somewhat sought to address the concerns of intensity of board activity, corporate social responsibility and stakeholder engagement in SME corporate governance studies by incorporating proxies such as the number of board meetings, corporate ethics, the influence of credit providers into their model. None of the above studies, however, tackled strategic issues such as risk management, strategic and succession planning abilities of SME managers.

In sum, the above studies had weaknesses. First, they employed variables developed specifically for large firms on the backdrop of agency theory. Secondly, they failed to comprehensively recognize variables required for SME governance studies. Thirdly, previous studies have demonstrated that SMEs are largely owned and managed by family members (Yacuzzi, 2005; Clarke, 2006) and thus render the consistent use of ownership structure, which tends to focus on the presence or absence of foreign ownership as well as large block-holders among SMEs, as a measure of corporate governance inappropriate. Fourthly, none of the methodologies employed in these studies considered the effects of mediating variables such as access to capital and the reputation of firms on the financial performance of SMEs.

Financial Performance

Extant literature has identified four main approaches to measuring firm performance. These are the goal approach, system resource approach, stakeholder approach, and competitive value approach (Chong, 2008). The goal approach is concerned with how an organization attains its goals while the system resource approach measures the ability of an organization to access its resources (Yuchtman & Seashore, 1967). Both approaches concentrate on the attainment of internal organizational goals. On the other hand, the stakeholder approach and the competitive value approach evaluate the performance of an organization based on its ability to meet the aspirations of the external stakeholders (Daft, 1995).

Among these, the goal approach is most commonly used in SME studies due to its simplicity, understandability and being internally focused (Chong, 2008). Information is easily accessible by the owner-managers for the evaluation process (Pfeffer & Salancik, 1978). For the remaining three approaches, they are deemed challenging to the owner-managers of the SMEs (Quinn & Rohrbaugh, 1981). Empirically, the measurement of firm performance has remained problematic in business research because academic research on firm performance measurement is derived from a wide spectrum of disciplines, including accounting, economics, human resource management, marketing, operations management, psychology, strategic management, and sociology (Marr & Schiuma, 2003).

Diversity of such measures used in literature constitutes additional sources of methodological heterogeneity (González-Benito & González-Benito, 2005). Also, various approaches have been applied to study performance in research settings together with the lack of agreement on basic terminology make performance measurement a controversial subject for researchers (Jogaratnam, Tse, & Olsen, 1999). Murphy, Trailer and Hill (1996) opined that the precise measurement of financial performance is vital to understanding why some SMEs succeed while others fail. Some researchers have also mixed-up issues of organizational effectiveness with those of organizational performance. For example, Tangen (2003) defined firm performance measures as metrics employed to quantify the efficiency and/or effectiveness of actions. Such definitions allow a range of endless issues to be included in the firm performance construct.

However, Richard, Devinney and Johnson (2008) highlight the need to distinguish between organizational performance and the more general construct of organizational effectiveness because a narrower domain of organizational performance provides a useful potential to make meaningful comparisons across firms and industries. Organizational effectiveness is broader and captures organizational performance plus the plethora of internal performance outcomes normally associated with more efficient or effective operations and other external measures that relate to considerations that are broader than those simply associated with economic valuation (either by shareholders, managers or customers), such as reputation. Organizational performance encompasses three specific areas of firm outcomes: (1) financial performance (profits, return on assets, return on investment, etc.); (2) market performance (sales, market share, etc.); and (3) shareholder return (total shareholder return, economic value added, etc.)'.

The distinction is significant in view of the fact that, in an attempt to overcome the weaknesses associated with financial measures of firm performance, some researchers have adopted a hybrid approach of using both financial and non-financial measures. This has shifted the focus of measurement of firm performance towards organizational effectiveness (Richard, Devinney & Johnson, 2008).

For instance, the Balanced Score Card (BSC), which was first introduced by Kaplan and Norton, based on a one-year study of 12 companies (Kaplan & Norton, 1992) is now viewed as one of the most popular framework for measuring firm performance. The thrust of their framework is that financial measures alone were insufficient, and that other factors such as competence, knowledge, and customer focus were necessary. The authors contend that the BSC approach for measuring performance provides a holistic view of firms and examine four important areas: finance, customers, innovation and learning, and internal business procedures.

However, this measurement tool is usually tailored to each individual firm making comparison among different firms almost impossible, given that the implementation of a balanced scorecard for even a single firm is already complex and difficult (Neely & Bourne, 2000; Schneiderman, 1999). As indicated earlier, it is also tilted towards issues of general organizational effectiveness rather than on organizational performance.

Chong (2008) postulates that financial measures largely dwell on profitability, growth and shareholder value of the business enterprise while the non-financial measures focus on issues pertaining to customers' satisfaction and customers' referral rates, delivery time, waiting time and employees' turnover. Also, financial indicators have the advantages of being objective, simple and easy to understand and compute, but in most cases, they also suffer from being historical and not being readily available in the public domain. Profits are also subject to manipulations and interpretations.

Several other researchers have identified various weaknesses of financial measures from different perspective. For instance, Covin and Slevin (1989) identified their inaccessibility and lack of confidentiality; Sapienza and Grimm (1997) found them to be incomplete while Sapienza, Smith, and Gannon (1988) pointed to their lack of accuracy and timeliness of data which make comparisons among the sectors challenging and futile.

Murphy et al. (1996) recommended that researchers in entrepreneurial firms explicitly state specific performance dimensions, provide theory-based rationale, pay attention to the type of industry and include multiple measures when feasible. Researchers should also incorporate control variables such as firm age and size, as firm performance can be considered ambiguous. Further, Vijfvinkel, Bouman and Hessels (2011) observed that financial performance is a widely used indicator of a firm's financial health over a given period of time when undertaking small business research.

The goal approach directs the owner-managers of SMEs to focus their attentions on financial measures (Chong, 2008). Financial measures such as revenues and profitability, indicating an organization's current state of performance may not necessarily serve as a useful guide or prediction for the organization's long-term survival (Birley & Westhead, 1994). However, by accumulating such revenues and profits, these may become a useful pool of resources for future growth and expansion that can assist the firm to push over its survival threshold (Barney, 1997) and pursue its growth strategy (Haber & Reichel 2005).

Chong (2008) contend that profitability, even in the short run, is a significant factor in the organization's ability to attain its long term goals such as increased market share, brand names and reputations. Chong (2008) emphasized that low profitability for a specific period, however, may not necessarily mean deficiency on the part of owner-managers. This may be due to large investments in long term projects that may lead to future growth or for meeting the internal or external demands on the organization.

This implies that while the goal approach stresses on achieving predetermined targets, it is necessary for the owner-managers to consider the time frame of completing the process (Haber & Reichel, 2005). Richard, Devinney and Johnson (2008) also indicated that the measurement of performance requires an understanding of the time series properties relating organizational activity to performance. This study concentrates on the financial performance of SMEs and relies on profit growth as the measure of performance.

Conclusion

This section sought to identify indicators of effective corporate governance in the SME sector by reviewing relevant theories and highlighting the weaknesses in existing literature. It argues that the ability to implement these factors is dependent on the competencies of SME managers as they embody the extent of investment in human capital of these firms. It concludes with arguments on the need for studies on the financial performance of firms.

CHAPTER THREE

LINKAGES BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE

Introduction

This chapter examines how corporate governance influences the financial performance of small and medium scale enterprises based on a review of both theoretical and empirical studies. It takes into account the effects of both control and mediating variables on such a relationship. A conceptual model is presented at the end of the chapter to clarify the linkages among the variables employed in this study.

Corporate Governance and Financial Performance

Lei (2006) demonstrated how corporate governance improves the performance of firms through the reduction of both waste of capital and cost of capital. Jensen and Meckling (1976) defined the value-decreasing activities as managers' perquisites consumptions, stealing of corporate resources and inefficient investment. Corporate governance plays an important role in enhancing firm value by reducing such activities (Lei, 2006).

John et al. (2005) showed that good corporate governance reduces the optimal level of perks, and thus makes managers willing to invest in risky but profitable projects. Jensen (1986) argued that good corporate governance also reduces the resources under managers' control, resulting in less free cash flow problem. The reduction of free cash flow can be viewed as an indirect way of reducing the waste of capital, because managers now have limited discretionary resources to appropriate (Lei, 2006).

Abor and Adjasi (2007) also argued that good corporate governance practices improve the prospects of SMEs in obtaining funding from investors and financial institutions. This is an exact consequence of proper bookkeeping and accounting practices and information disclosure which increase the confidence of investors in the firm. The SMEs also exhibit healthier growth and commitment to business efficiency due to the presence of external supervisory parties.

According to Love (2011), the rewards of good corporate governance include reduction of waste on non-productive activities such as shirking, excessive executive remuneration, perquisites, asset-stripping, tunnelling, related-party transactions and other means of diverting the firm's assets and cash flows. It also results in lower agency costs arising from better shareholder protection, which in turn engenders a greater willingness to accept lower returns on their investment.

The firm ultimately ends up enjoying higher profits as it incurs lower cost of capital. Importantly, firms become more attractive to external financiers in direct proportion to a rise in their corporate governance profile. Finally, managers become less susceptible to making risky investment decisions, and focus more on value-maximizing projects that generally facilitate organizational efficiency. The ultimate outcomes of these corporate governance benefits are generally higher cash flows and superior performance for the firm.

Empirical findings on the relationship between corporate governance and firm performance, however, have been mixed. Some studies have argued against a positive relationship between corporate governance and firm performance (Gillan, Hartzell & Starks, 2006; Pham, Suchard & Zein, 2007; Chhaochharia & Leaven, 2007) while others have affirmed such a relationship. For example, Black (2001) found that better-governed firms have higher market value in Russia.

Also, Klapper and Love (2004) found higher return on assets (ROA) for better-governed firms in emerging markets. In addition, Brown and Caylor (2006) reported higher valuation, higher profitability and higher dividends payments for better-governed firms. Finally, several other studies have demonstrated varying positive relationships (Bebchuk, Cohen & Ferrell, 2005; Black & Khana, 2007; Brown & Caylor, 2006; Abor & Adjasi, 2007; Kyereboah-Coleman, 2007; Larcker, Richardson & Tuna, 2007).

Bebchuk, Cohen and Wang (2012) provide recent evidence to explain the 'disappearance' of abnormal returns offered by corporate governance in the 1990s. They argued that most market participants have learned over time to incorporate good governance indices in their decision making to the extent that effective governance does not any longer offer significant competitive advantage. However, by showing that the governance indices remain associated with firm value and operating performance notwithstanding the disappearance of their correlation with returns, their work indicated that these indices continue to offer a potentially effective tool for researchers and market participants.

Only a few empirical studies have been conducted in the SME sector (e.g. Al-Najjar, 2009; Hamad, 2011). Even within this category, none sought to investigate the phenomena based on corporate governance variables applicable to this sector. The next section discusses the relationship between the independent, control, mediating variables and the dependent variable (financial performance).

Relationship between the Predictor variables and the Dependent variable

Independent (predictor) variables are variables that cause changes to the dependent variables while dependent variables are variables that change in response to changes in other variables (Saunders, Lewis & Thornhill, 2009). The independent variables used for this study are board size; intensity of board activity; managerial competence; strategic competence; corporate social responsibility and stakeholder engagement while financial performance (using sales growth; profit growth as proxies) serves as the dependent variable. The relationships between these variables are discussed in the following sub-sections:

Board Size and Financial Performance

Lipton and Lorch (1992) and Jensen (1993) pioneered the studies on board size. Jensen (1993) attributed technological and organizational change which ultimately leads to cost cutting and downsizing as the main reasons for smaller boards. The tenets of organisational theory argue against larger groups because they take relatively longer time to make decisions and therefore will require more input time for a given level of output (Steiner, 1972).

Hermalin and Weisbach (2003) saw larger boards as inefficient because of the possibility of the presence of free-riders in the midst of large numbers. In line with organisational theory, Lipton and Lorch (1992) also argued that a large board lead to less meaningful discussion, since expressing opinions within a large group is generally time consuming and difficult and frequently results in a lack of cohesiveness on the board. Therefore, they recommended limiting the membership of board to ten with a preferred size of eight or nine to overcome these challenges and to also avoid easy manipulation of the board by the CEO.

In addition, presumed advantages associated with large numbers are quickly neutralised by the problems associated with coordination of such large groups (Jensen, 1993). Further, when a board becomes too big, it often only serves a symbolic role, rather than fulfilling its intended purpose as part of the management (Hermalin & Weisback, 2003).

However, according to Dalton and Dalton (2005), very small board of directors are disadvantaged by the spread of expert advice and opinion normally available in larger boards, since larger boards are more likely to be characterised by board diversity in terms of experience, skills, gender and nationality. In addition, the benefit of encouraging team development through a widen board has been argued to be an important step in improved corporate governance in SMEs (Cadbury, 2000). Such widened board development for very small firms has been noted as directly improving firm performance (Wynarczyk et al., 1993; Goodstein et al., 1994) especially where these are non-executive directors (Cowen & Osborne, 1993).

Empirical studies on the above theoretical propositions have been mixed. While some researchers found a positive relationship between board size and firm performance (e.g. Abor & Biekpe, 2007; Hamad, 2011), others (e.g. Kyereboah-Coleman & Amidu, 2008; Martikainen et al., 2009; Arosa et al., 2012; Gill et al., 2012) established a negative relationship. Studies conducted in Ghana on this subject by Abor & Biekpe (2007) and Kyereboah-Coleman and Amidu (2008) show inconsistent results. In view of such findings, the issue on the relationship between board size and SME financial performance in Ghana is an open question. Therefore, it is hypothesised that:

H1a: There is a significant relationship between board size and financial performance of SMEs.

Intensity of Board Activity and Financial Performance

A measure that has been introduced to understand the effectiveness of boards' operations in some studies is the intensity of board activity, using the frequency of board meetings as a proxy (Vafeas, 1999; Kyereboah-Coleman, 2009; Arosa et al., 2012). The frequency of meetings can be considered as a measure of board's effectiveness in carrying out the tasks of monitoring and advising, and therefore influencing firm performance (Arosa et al., 2012). It is assumed that boards that do meet frequently are more active in carrying out their traditional tasks of monitoring and advising, thereby leading to better firm performance (Gabrielsson & Winlund, 2000).

Such meetings provide the platform for the exchange of ideas, knowledge and information in order to monitor managers (Conger, Finegold & Lawler, 1998). The need to monitor managers is exclusively a problem for larger firms. However, in SMEs such meetings could also provide valuable guidance to owner-managers in making both operational and strategic decisions that could positively influence firm's financial performance. Lipton and Lorsch (1992) suggest that the frequency of meetings is positively associated with performance.

Some critics, on the contrary, have contended that board meetings do not contribute to performance in any meaningful way because outside directors spend time discussing an agenda that was prepared by Chief Executive Officers (Jensen, 1993). In addition, it is believed that routine tasks absorb much of the meetings and these limit the ability of outside directors to exercise meaningful control over management (Jensen, 1993). Vafeas (1999) studied 307 firms over the 1990–1994 period and found that board meeting frequency is related to corporate governance and ownership characteristics in a manner that is consistent with agency theory. Specifically, on the intensity of board activity, the annual number of board meetings was inversely related to firm value.

These propositions are yet to be tested within the context of SMEs but given that boards within this sector are expected to play more advisory rather than mandatory roles, it can be assumed that board meetings could have some significant effect on SMEs performance. This is another inconclusive issue; therefore, the following is hypothesised:

H2a: There is a significant relationship between intensity of board activity and financial performance of SMEs.

Mediating Effect of Access to Capital on Board Structure-Financial Performance Relationship

In general, a given variable may be said to function as a mediator to the extent that it accounts for the relation between an independent variable and a dependent variable (Baron & Kenny, 1986). The identified variables that do mediate between corporate governance and financial performance of firms as demonstrated in the previous section are access to capital and business reputation. Once again, it is necessary in mediational studies, to show that the predictor variables or their constructs do have some relationship with the mediating variables (Baron & Kenny, 1986). This section provides such linkages.

Board role research is mainly characterised by the conceptual development of board roles, based on a range of organisational theories such as agency, resource dependence, resource-based, strategic leadership, stewardship, social network and institutional theory (Fried, Bruton & Hisrich, 1998; Dalton, Daily, Johnson & Ellstrand, 1999; Daily, Dalton & Cannella, 2003; Hillman & Dalziel, 2003; Lynall, Golden & Hillman, 2003).

The resource dependency theorists regard the provision of resources to firms as the main function of boards. According to Daily, McDougall, Covin and Dalton (2002), greater numbers of directors provide the potential to create linkages between the firm and its environment, where financial resources can be accessed. Hence, entrepreneurial firms with greater needs for effective linkages with the external environment should therefore have larger and active boards (Pfeffer & Salancik, 1978; Daily et al., 2002). According to Mallins (2010), the creation of board of directors is deemed most critical when SMEs are seeking external equity financing.

Short, Keasey, Wright, and Hull (1999) opined that it is an error to overemphasize the monitoring role of boards, and that more emphasis should be paid to the skills and other knowledge resources directors can bring to the firm. Similarly, Gkliatis (2009) postulate that facilitating access to resources such as capital is one of the main activities of boards with relation to the provision of resources. Hence, the following hypotheses are examined:

H1b: The relationship between board size and financial performance of SMEs is mediated by access to capital.

H2b: The relationship between the intensity of board activity and financial performance of SMEs is mediated by access to capital.

Mediating Effect of Firm Reputation on Board Structure-Financial Performance Relationship

Resource dependency and resource-based theories form the basis of the roles boards play in improving the reputation of their respective firms. Gkliatis (2009) posits that the activities of the board are related to the provision of resources and these resources include, among others, providing legitimacy/bolstering the public image of the firm.

Hillman and Dalziel (2003) argue that board capital consists of human capital (experience, expertise, reputation) and relational capital (networking to other firms, and external contingencies) which enhances the image of a firm. Board capital has also been positively associated with the provision of advice and counsel as well as the provision of firm legitimacy and reputation (Gkliatis, 2009). A study by Van Heurel, Van Gils & Voordeckers (2006) concluded that, CEOs of SMEs perceive their boards as an intellectual and reputational resource, networking and maintaining relations as well as providing advice when needed. Hence, the following hypotheses are examined:

H1c: The relationship between board size and the financial performance of SMEs is mediated by the reputation of the firm.

H2c: The relationship between the intensity of board activity and financial performance of SMEs is mediated by the reputation of the firm.

Managerial Competence and Financial Performance

The competency approach, propounded by the early works of Boyatzis (1982), defined competencies as the underlying traits that are causally related to effective and/or superior performance on a job. The underlying purpose for managerial competency research is to identify the characteristics of a good and effective manager (Mintzberg, 1973) so that organizations can be successful. By doing so, more concrete and detail descriptions of what constitutes competence are generated and, this largely overcome the problem of generating descriptions of competence that are too general (Sanda, Sackey & Faltholm, 2011).

According to Mole et al. (1993), competency can be studied from its inputs (antecedents to competencies), process (task or behaviour leading to competencies), or outcomes (achieving standards of competence in functional areas). Human capital factors such as level of education, start-up experience, work experience, management skills and technical know-how have long been identified in several studies as important determinants of SMEs performance (Charney & Libecap, 2000; Mazzarol, et al., 1999; Sinha, 1996). Specifically, some studies (Carter & Jones-Evans, 2000; Storey, 1994) found that basic education enhances the overall quality of the owner/manager by providing him/her with basic numeric and literacy skills, thus increasing the chance of survival. The converse findings, though, is that owner/managers of SMEs who had degrees generally achieved lower rates of growth than those less well educated (Hall, 2000; Barkham et al., 1996).

With respect to work experience, Hall (2000) found that SME owner/managers in the UK with little experience at the start-up phase could have problems remaining solvent with an increase in expenditure in relation to their earnings. Kalleberg and Leicht (1991) found no relationship between prior SME experience and firm growth while Storey (1994) found a negative relationship between being unemployed before starting a business and subsequent business growth. These traits determine whether an entrepreneur has the necessary skills to start and successfully manage an enterprise and shall constitute part of managerial competence.

Mbogo (2011) studied the influence of management accounting skills of SMEs managers on the success and growth of small and medium enterprises in Kenya and concluded that training levels and managerial accounting capabilities of owner/manager have a strong, positive and significant influence on the decision making and consequently are critical for the success, growth and survival of SMEs. With respect to risk management, Anderson (2008) concluded that risk management reduces a firm's average capital expenditure and contract costs as it eases access to resources.

Nakiyingo (2010) also found a positive and significant relationship between managerial competencies, credit accessibility and business success. Baum (1994) also studied competencies in organizations and business performance and found a significant positive relationship. More recently, Kumar and Shahid (2014) have confirmed a statistically significant association between financial performance and general management skills. On the contrary, Sanda, Sackey and Faltholm (2011) reported that while SME executives in Ghana had a lot of managerial competencies, this does not translate into financial performance. This study would seek to interrogate Sanda et al. (2011) findings by establishing the relationship between managerial competence and financial performance of SMEs using a much larger sample size. Hence the following hypotheses:

H3a: Managerial competence is significantly related to financial performance of SMEs.

Strategic Competence and Financial Performance

Corporate governance has been a central focus of strategic management research, particularly the associations among governance structures, strategic leaders, and firm performance. Extant research, however, provides little evidence of systematic relationships in these areas (Daily, McDougall, Covin & Dalton, 2002). Findings from studies that sought to understand why some small businesses succeed whiles others do not have generally cited strategic planning as vital in small business development, competitiveness and success (Vicere, 1995). In practice, however, the primary focus of small business operators is on short-term operational issues rather than long-term strategic issues, and their decision-making is generally reactive and intuitive rather than proactive and deliberate (Brouthers, Andriessen, & Nicolaes, 1998; Gaskill, van Auken, & Manning, 1993; Jones, 1982; Mazzarol, 2004; Stonehouse & Pemberton, 2002). For those operators that do plan, planning is frequently ad hoc rather than formal and subsequently provides little basis upon which business performance can be measured or analyzed (Kelmar & Noy, 1990).

Research into why small businesses generally do not engage in strategic planning has suggested that operators may be hindered or discouraged by ‘planning barriers’ such as a lack of time, a lack of specialized expertise, inadequate knowledge of the planning processes, or a reluctance to share strategic plans with employees and external consultants (Robinson & Pearce, 1984).

Comprehensive reviews of the small business literature suggest that, ceteris paribus, strategic planning is generally more common in better performing enterprises (Hormozi, Sutton, McMinn, & Lucio, 2002; Lurie, 1987; Miller & Cardinal, 1994; Schwenk & Shrader, 1993). For example, small businesses that strategically plan (compared to those that do not) are more likely to be those that achieve higher sales growth, higher returns on assets, higher profit margins and higher employee growth (Berman, Gordon, & Sussman, 1997; Bracker, Keats, & Pearson, 1988; Carland & Carland, 2003; Gibson & Casser, 2005).

Small businesses that strategically plan are also more likely to be those that are innovative, those that achieve international growth (Beaver & Prince, 2002; Gibbons & O'Connor, 2005; Stewart, 2002; Upton, Teal, & Felan, 2001) and those less likely to fail (Gaskill, van Auken & Manning, 1993; Perry, 2002). However, the frequency and effectiveness of strategic planning, which refers to the setting of long-term business goals, and the developing and implementing of formal plans to achieve these goals (O'Regan & Ghobadian, 2004; Stonehouse & Pemberton, 2002), depend on the strategic competence of the manager (Robinson & Pearce, 1984).

Man (2011) studied entrepreneurial competencies and the performance of small and medium enterprises in the Hong Kong services sector and concluded that without strategic competencies of the entrepreneur to make use of the competitive scope and the organisational capabilities, the long-term performance of the firm cannot be achieved. He argues that the lack of strategic competence has longer term implications on a business organisation. The most common of which is on the performance of the firm.

The future of any firm is only secured with a clear vision or goal. If management lacks the competence to make changes in crisis, to reposition the firm to respond to changes in its environment or to find suitable market niches, these would have negative effects on the long-term profitability of the firm (Man, 2011). Sanda, Sackey and Faltholm (2011) studied the strategic competence of executives of SMEs in Ghana. With respect to executives' competences when strategically planning for their firms, fifty (70%) executives communicate their organization's mission and vision very often. Fifty-three (78%) executives also enhance their strategic planning process by initiating strategic ideas as well as reviewing and updating the objectives of their businesses. Forty-five (63%) executives indicate that in their planning process, they put much emphasis on identifying needed resources and also in developing programmes, policies and procedures. The results also show that 60 (83.3%) executives engage in follow-ups as well as monitor and assess the progress of their business operations.

The conclusion of their finding is that, on the whole, SME executives in Ghana have the requisite competences to strategically plan the affairs of their businesses as well as assess and monitor the progress of their firms' operations. What is left unanswered, however, is the extent to which these competences improve the performance of SMEs in Ghana. Hence, the following is hypothesised:

H4a: Strategic competence is significantly related to financial performance of SMEs.

Mediating Effect of Access to Capital on Entrepreneurial Competence-Financial Performance Relationship

Many studies demonstrate that the competencies of individuals running business organizations are quality signals (Podolny, 1993) that assist stakeholders make resource allocation decisions for investing in these firms (Shane & Cable, 2002). Entrepreneurial competencies are therefore valuable in acquiring resources for a firm (Higgins & Gulati 2006; Stuart et al. 1999). For instance, Shepherd and Zacharakis (1999) observe that the most consistent findings across entrepreneurial finance studies is the importance venture capitalists place on the ability of the founding team, whether it is their managerial capabilities (Tyebjee & , 1984) or track record (Hutt & Thomas, 1985).

Again, Shane and Cable (2002) conclude that entrepreneurs with certain endowments are in a better position to get attractive loans. Some of these endowments are network related, while others are based on the previous experience and skills of the founder(s) (Zacharakis & Meyer, 2000). Hence, the following hypotheses are examined:

H3b: The relationship between managerial competence and financial performance of SMEs is mediated by access to capital.

H4b: The relationship between strategic competence and financial performance of SMEs is mediated by access to capital.

Mediating Effect of Firm Reputation on Entrepreneurial Competence-Financial Performance Relationship

Reputation is often viewed as the information about an individual's past (Podolny, 1994). In business environment, attaining a good reputation for a firm has everything to do with the manner in which the affairs of the firm are managed. The entrepreneur's competencies provide information about his or her ability to implement the venture; therefore, investors should be more likely to fund opportunities by entrepreneurs with such positive reputations (Shane and Cable 2002).

This implies that the competencies of entrepreneurs do impact on the reputation of their respective organizations. More significantly, in an environment where firm ownership is not separated from control and most owners are actively involved in the delivery of services, the reputation of SMEs would be largely dictated by the competencies of the owner (Carson et al., 1995; Stokes, 2002; Carson et al., 2004; Shaw, 2006).

Research has also shown that managers of smaller firms rely on word of mouth and networking as mechanisms for building reputation and enhancing the performance of their firm (Carson et al., 1995; Silverside, 2001; Stokes 2002; Carson et al., 2004; Shaw, 2006). Hence, the following hypotheses are examined:

H3c: The relationship between managerial competence and financial performance of SMEs is mediated by the reputation of the firm.

H4c: The relationship between strategic competence and financial performance of SMEs is mediated by the reputation of the firm.

Corporate Social Responsibility and Financial Performance

Several studies have investigated the relationship between CSR and financial performance, both theoretically and empirically. In particular, research based on neoclassical economics argued that CSR unnecessarily raises a firm's costs, putting the firm in a position of competitive disadvantage vis-à-vis its competitors (Friedman, 1970; Aupperle et al., 1985; McWilliams & Siegel, 1997; Jensen, 2002). Some studies based on agency theory have also argued that, using valuable firm resources to engage in CSR results in significant managerial benefits rather than financial benefits to the firm's shareholders (Brammer & Millington, 2008).

In contrast, other scholars have argued that CSR can have a positive impact by providing better access to valuable resources (Cochran & Wood, 1984), attracting and retaining higher quality employees (Turban & Greening, 1997; Greening and Turban, 2000), allowing for better marketing of products and services (Moskowitz, 1972; Fombrun, 1996), creating unforeseen opportunities (Fombrun et al., 2000), and contributing towards gaining social legitimacy (Hawn et al., 2011).

Furthermore, CSR may function in similar ways as advertising does, increasing demand for products and services and/or reducing consumer price sensitivity (Dorfman & Steiner, 1954; Navarro, 1988; Sen & Bhattacharya, 2001; Milgrom & Roberts, 1986) and even enabling firms to develop intangible assets (Gardberg & Fomburn, 2006; Hull & Rothernberg, 2008).

From a stakeholder theory perspective (Freeman, 1984; Freeman et al., 2007; Freeman et al., 2010), which suggests that CSR includes managing multiple stakeholder ties concurrently, scholars have argued that CSR can mitigate the likelihood of negative regulatory, legislative or fiscal action (Freeman, 1984; Berman et al., 1999; Hillman & Keim, 2001). Therefore, the following hypotheses:

H5a: There is a significant relationship between CSR and financial performance of SMEs.

Stakeholder Engagement and Financial Performance

Several empirical studies have demonstrated a strong positive correlation between stakeholder relationships and firm's financial performance (Svendsen, Boutlier, Abbot & Wheeler, 2002). For instance, Kotter and James (1992) reported that over an eleven-year period, stakeholder-oriented companies achieved significantly higher amount of sales and employment growth than stockholder-oriented companies. Other studies employed CSR databases to correlate measures of stakeholder relationship quality with financial performance (Collins and Porras, 1995; Waddock & Graves; 1997, Berman et al, 1999; Roman et al, 1999).

Waddock and Graves (1997) and Berman et al. (1999) used measures for the quality of relationships with employees, customers, communities, minorities and women, and the natural environment that were based on CSR ratings derived from the Kinder, Lydenberg, Domini (KLD) Socrates database. Waddock and

Graves (1997) correlated companies' previous year CSR ratings with financial performance on measures such as return on assets (ROA), return on equity (ROE), and return on sales (ROS). They found quantitative support for the assertion that there is a connection between how a company treats its stakeholders and financial performance. Also, Berman et al, (1999) sought to determine which kinds of CSR behaviours were most strongly tied to return on assets (ROA). They found that CSR behaviours that dealt with the company's relationships with employees and with customers had significant direct effects on return on assets.

Svendsen, Boutlier, Abbot and Wheeler (2002) summarized the reasons why stakeholder engagement creates competitive advantage and subsequently improved business performance to include; its ability to reduce risk, increase the ability of a firm to access information and resources and improve firm's reputation and innovation.

Within marketing discourse, consumer engagement is portrayed as a channel for creating, building and enhancing consumer relationships. Consumer engagement is seen both as a strategic imperative for establishing and sustaining a competitive advantage, and as a valuable predictor of future business performance (Brodie, Ilic, Juric, & Hollebeek, 2011). Specifically, Brodie et al. (2011) view consumer engagement as a primary driver of sales growth and suggests that consumer engagement enhances profitability.

In human resource management, studies have established a positive relationship between employee engagement and organizational performance outcomes such as employee retention, productivity, profitability, customer loyalty and safety (Markos & Sridevi, 2010). Employers who engage employees are likely to exceed the industry average in its revenue growth. Also, employee engagement is found to be higher in double-digit growth companies (Markos & Sridevi, 2010).

Research also indicates that engagement is positively related to customer satisfaction (Ellis & Sorensen, 2007). According to Baumruk and Gorman (2006), engaging employees consistently demonstrates three general behaviours which improve organizational performance: the employee advocates for the organization to co-workers, and refers potential employees and customers; the employee has an intense desire to be a member of the organization despite opportunities to work elsewhere; and the employee exerts extra time, effort and initiative to contribute to the success of the business.

According to Saaveda and Torero (2002), unions affect the rules and procedures governing the employer-employee relationship in organized establishments and that they have an effect on firm performance. Eaton and Voos (1992) have shown that unionised workforce are more likely than their non-unionised counterparts to be engaged in workplace innovation, especially those cooperative arrangements, such as teamwork and production gain sharing, which yield higher productivity. Non-unionised workforce is more apt to concentrate on profit-sharing plans that have little direct impact on productivity. Kelley and Harrison (1992) found that unionised firms were as much as 31 percent more productive than non-unionised firms among U.S. metal and machinery companies.

On the other hand, some other studies have found negative effects of unions on productivity and economic performance. According to Kuhn (1998), unions may affect productivity negatively in three ways: Firstly, if it leads to compensation practices that reduce rewards to effort. Secondly, if it promotes job stability, reducing efforts as workers do not feel threatened by a layoff or thirdly, if it reduces flexibility in terms of hours, job description and workplace practices. With respect to profitability, Addison and Hirsch (1989) and Machin and Stewart (1996) demonstrated that unions have a negative effect on profits and on shareholders wealth in North America. Similar finding was reported by Meneses-Filho (1997) in the United Kingdom.

While Public choice theorists view business associations as counter-productive and discriminatory because of its rent-seeking behaviour to benefit special interest groups at the expense of majority (Hill, 1999), the Pluralist theorists argue that organised groups, such as business associations, can collectively increase political and economic bargaining power and influence public policy to improve overall business environment for their members (Browne, 1990).

In spite of the above benefits of business associations, there are also some costs associated with being a member (Newbery, 2010). According to Bennett (1996), members usually pay subscriptions and additional fees for specific services such as training, consultancy or advice.

Other financial costs may include travel and opportunity costs. Time spent in attending meetings will also incur an opportunity cost, in terms of the loss of earnings compared to the deployment of time elsewhere. If a member is spending time attending a meeting when they could be at work, then there is a corresponding opportunity cost in lost income, which may of course be out-weighed by potential benefit (Newbery, 2010).

But more significantly in SME governance, membership of an association may even undermine an owner-manager's sense of autonomy and independence (Curran & Blackburn, 1994). There may be social costs, with associations carrying their own set of norms, which members must conform to. Phillipson, Gorton and Laschewski (2002: 27) found that there were '*unwritten rules for competition and gentlemen's agreements'* that had to be upheld by members.

From the above discussions, it is clear that the stakeholders of firms have significant influence on their performance. Clarkson (1995) maintains that a firm's survival and success depend on the ability of its managers to create sufficient wealth and satisfaction for its primary stakeholders. According to the author, if any of the primary stakeholder groups (employees, shareholders, customers, suppliers, communities, and natural environment) withdraws its support to the firm, the firm's operation would be adversely affected. Therefore, firms must establish relationship with their stakeholders beyond market transactions to gain competitive advantage (Barney & Hansen, 1994; Fomburn & Shanley, 1990).

Hence, in order to achieve sustainability in business, firms must identify key stakeholders affecting the firm, identify their needs, and design organizational policies and practices to cater for them. Accordingly, the study examines the extent of stakeholder engagement undertaken by SMEs and the influence of such engagement on their financial performance guided by the following hypotheses.

H6a: There is a significant relationship between stakeholder engagement and financial performance of SMEs.

Mediating Effect of Access to Capital on Stakeholder Relations-Financial Performance Relationship

Firms take into account the interests of numerous and diverse internal and external stakeholders when developing strategies for the achievement of organizational goals (Rais & Goedegebuure, 2009). Each of these stakeholder groups has a different set of expectations regarding what should be the main goals of a firm.

While managers may address some of these expectations out of a sense of moral obligation, others must be met to ensure survival and profitability of an enterprise because some stakeholder groups hold power in influencing firm resources (Jawahar & McLaughlin, 2000) while others deliver perceived strength to influence firm's success (Wood & Jones, 1995). This study focused on two broad aspects of stakeholder relations, which are; the extent to which the firm address societal issues (CSR) and the extent to which various stakeholders are involved in the affairs of the firm (stakeholder engagement).

With respect to CSR, Cochran and Wood (1984) argued that it can have a positive impact by providing better access to valuable resources. Other authors postulate that CSR attracts socially conscious consumers (Hillman & Keim, 2001), or attract financial resources from socially responsible investors (Kapstein, 2001).

Models of the business life-cycle demonstrate how a firm goes through various life stages, spanning from start-up, survival, growth to maturity (Churchill & Lewis, 1983). The resource requirements at the various stages tend to vary to meet their peculiarities (Newbery, 2010). For instance, during start-up, emphasis is laid on maintaining a regular income, access to market knowledge and capital, organising suppliers and attracting customers (Burns, 2007), facilitated by developing relationships (Burns & Whitehouse, 1996). Whilst these resources remain prerequisites during the growth stage, attention is shifted to the re-alignment of resources such as systems, personnel and organisation, developing leadership and marketing skills and using relationships to access advice (Burns & Whitehouse, 1996; Cosh & Hughes, 1998).

A common theme across these life stages is that relationships matter (Burns & Whitehouse, 1996) and that a contact network can facilitate access to resources (Bhide, 1992). This access is enhanced by the degree to which the manager is embedded within the local social environment (Granovetter, 1985).

Gulati, Nohria and Zaheer (2000) suggest that, whatever the life-stage of the firm, having a membership with business associations enhance access and lower the cost of key resources. For members, key resources may for instance relate to specialised machines, highly trained experts or economies of scale created through the collaborative efforts of a number of businesses. An association, by providing access to these resources, means that the business does not have to develop these specialised and costly resources independently.

The business may also gain access to new customers, directly boosting sales (Newbery, 2010). Other members of the association may become new clients, pass on their customers (Phillipson, Gorton & Leschewski, 2006) or be more likely to advertise the business by word-of-mouth to their own personal networks (Curran & Blackburn, 1994). Membership may also provide access to promotional channels, such as web or print based directories (Reilly & Szabo, 2005).

Overall, the effective engagement and management of key stakeholders serve as a value driver by leveraging performance and reducing stakeholder-inflicted costs (Mishra & Suar, 2010). For example, dependable suppliers reduce quality certification costs, lower employee turnover, reduces hiring and training costs, supportive communities reduce legal and public relations overhead, and committed and stable investors reduce cash flow problems (McVea & Freeman, 2005). Hence, it is hypothesized that:

H5b: The relationship between CSR and financial performance of SMEs is mediated by access to capital.

H6b: The relationship between stakeholder engagement and financial performance of SMEs is mediated by access to capital.

Mediating Effect of Firm Reputation on Stakeholder Engagement-Financial Performance Relationship

Corporate social responsibility (CSR) is an important conduit of good corporate governance that enhances value creation by protecting and enhancing corporate reputation (Fombrun & Shanley, 1990; Fombrun, 2005; Freeman et al., 2007). For instance, Neville et al. (2005) found reputation as an intermediary variable between CSR and financial performance.

Deephouse (2000) assert that, reputation is the evaluation of a firm by its stakeholders in terms of their affect, esteem and knowledge. This is deemed critical to corporate success (Roberts et al., 2002; Jayne & Skerratt, 2003), and an important corporate asset (Caminiti & Reese, 1992) particularly in today's competitive market place (Martin, 2009). Building networks and engaging stakeholders are also viewed as means of promoting business credibility (Courtney & Atterton, 2001). Hence, the following hypotheses are examined:

H5c: The relationship between CSR and financial performance of SMEs is mediated by the reputation of the firm.

H6c: The relationship between stakeholder engagement and financial performance of SMEs is mediated by the reputation of the firm.

Relationship between Mediating variables and the Dependent variable

In order to effectively test a mediational hypothesis, it is imperative that there must be some relationship between the mediating variables and the dependent variable (Baron & Kenny, 1986). This section reviews literature to establish the linkages between the mediating variables (access to capital and firm reputation) and the dependent variable (financial performance). The first section looks at the relationship between access to capital and financial performance while the next section addresses the relationship between firm reputation and financial performance.

Access to Capital and Financial Performance

Several researchers in corporate governance have postulated the relevance of corporate governance in improving the amount of capital available to the firm through both waste and cost reduction (Jensen, 1986; Jensen & Meckling, 1976; John et al., 2005) as well as improving the prospects of accessing financial assistance from financial institutions (Abor & Adjasi, 2007).

Explicitly or impliedly, access to credit has also been cited by several studies both as a major determinant of the performance of SMEs in both developed and developing economies (Abor & Adjasi, 2007; Kashyap, 1996; Nakiyingi, 2010; Dube et al, 2011). Carter et al. (1997) studied retail firms to find a link between financial capital, human capital, and failure rates. They found that firms that had access to outside financial resources and partners who could provide equity investments were significantly less likely to discontinue.

According to Castelli (2006), SMEs normally borrow funds to meet their working capital needs. They acquire machines and equipment for their expansion needs by borrowing either from financial intermediaries like banking institutions or even individuals. Other studies suggested that the ability of several SMEs to exploit highly profitable opportunities would be enhanced if external financing were more accessible (Kashyap, 1996; Kasekende & Opondo, 2003; Nakiyingi, 2012).

Coleman (2007) used data from the Federal Reserve’s 1998 survey of small business finances to find that both human capital in the form of prior business experience and financial capital in the form of loans were predictors of growth for firms. Therefore, business owners who aspire to growth should be prepared to raise external sources of capital. Besides access to capital, firm’s reputation has also been cited as a factor that influence financial performance, hence, the next section reviews the relationship between firm reputation and the financial performance of firms.

Firm Reputation and Financial Performance

Good corporate governance promotes the quality of corporate reputation which in turn enhances the financial performance of the organisations involved (Iwu-Egwuonwu, 2011). Some researchers have also viewed good governance practices as enabling organisations to retain the confidence of financiers (e.g., Abor & Adjasi, 2007; Jamali et al., 2008).

According to Ljubojevic and Ljubojevic (2008), good corporate governance is necessary for maintaining attractive investment climate which is an attribute of highly reputable and competitive companies. Good corporate governance ensures management’s commitment to ethical accounting and principled business practices which altogether enhance the reputation of the organization, with the resultant reputation having a knock-on effect on the firm's performance.

Iwu-Egwuonwu (2011) postulates that even accounting literature supports the notion that corporate reputation brings about enormous amount of wealth, usually summed up in what is called goodwill, while some conventional wisdom affirm that the reputation which firms earn for themselves do cause sustainable profits. In addition, the resource based theory of the firm contends that the reputation of a firm can lead to a competitive advantage as it signals to stakeholders about the attractiveness of the firm, who are then more willing to contract with it (Deephouse, 2000).

Roberts (2003) postulates that a good reputation improves the value of everything an organisation does and says while a bad one devalues products and services and acts as a magnet that attracts further scorn. Empirically, a number of studies have established a positive relationship between firm reputation and performance. For instance, Chung, Eneroth and Schneeweis (1999) investigated how a company's reputation influences the value of its stock. The authors found that firms that are highly ranked in reputation outperformed firms that were ranked low on reputation.

Brammer and Millington (2005) established a positive relationship between a firm's reputation and financial performance. Tan (2007) found corporate reputation to be positively correlated with both superior total sales and superior earnings quality in Chinese public companies. Finally, Ghose, Ipeirotis and Sundarajan (2009) studied how different dimensions of a firm's reputations affects its pricing ability and found that a positive reputation helps corporate performance whiles a negative reputation hurts more than a positive one helps.

Control Variables and the Dependent Variable

Control variables are generally employed in research to minimise the influence or effects of extraneous variables (Kothari, 2004). Extant literature (Castello & Ozawa, 1999, Abor & Biekpe, 2007, Minai & Lucky, 2011) show that firm age; size; location; owner-manager's age and leverage correlate with financial performance. Hence, their relationships with financial performance are discussed in this section.

Age of firm and Financial Performance

Several studies have evaluated the relationship between the number of years spent by a business since its inception and performance. One stream of research suggests that older firms are more experienced, do enjoy the benefits of learning curve effects, are less prone to the liabilities of newness (Stinchcombe, 1965), and can, therefore, enjoy better performance. It is an undeniable fact that as firms grow, they unearth their potentials and learn to be efficient and effective. They tend to specialize in things that will grant them superior competitive advantage (Ericson & Pakes, 1995).

Another stream of research, however, suggests that older firms are prone to inertia, and the bureaucrats that goes along with age; thus, they are unlikely to have the flexibility to make rapid adjustments to changing circumstances and are likely to lose out in the performance stakes to younger, and more agile, firms (Hannan & Freeman, 1984). Moreover, old age may make knowledge, abilities, and skills obsolete and induce organizational decay (Agarwal & Gort, 1996, 2002). It can also have adverse effects on performance because of the organizational rigidities and inertia it brings about (Leonard-Barton, 1992) and because it impairs the ability of firms to perceive valuable signals.

According to Hannan and Freeman (1984), the root of the problem is the tendency of firms to codify their success with organizational measures, rules of conduct, and best practice. This behaviour, initially, often makes sense because it helps firms focus on their core competences and raise reliability and accountability. But in the long-run codification makes it hard to recognize, accept, and implement change when doing so would have been deemed appropriate. This suggests that old age reduces flexibility and discourages change. At the same time, whatever learning benefits the firm can capture in its established lines of business may probably decline over time. Overall, older firms could therefore lose their competitive edge.

Another reason why age could impair performance is its associated seniority rules in the organization. In many firms, seniority decides how things are done, who does them, and when. More ingeniously, seniority criteria privilege employees for services rendered in the past in deciding who should take on repetitive, unpleasant, or difficult jobs. Whatever the reason for their existence and acceptance within the organization, seniority rules in compensation can provide inadequate incentives for managers to perform.

Finkelstein and Hambrick (1990) mention three reasons why older managers could be responsible for organizational inertia: First, as individuals spend time in an organization, and particularly as they succeed and climb the organization's hierarchy, they become convinced of the wisdom of the organization’s ways. Second, longer tenure may increase managers’ risk aversion. Third, organizational tenure tends to restrict information processing. Managers rely more and more on past experience than on new signals (Katz, 1982), a habit that makes it more difficult to design, accept, and implement policy changes.

A related argument has to do with organization memory. How an organization evolves and performs is a function of its own history (Katz, 1982). Past external and internal events, such as discussions, disagreements, and its related compromises, shape the form of an organization and what it does. Arguably, older firms have a heavier and more restrictive organization memory and based on that, older firms might find it more difficult to perform in the long run.

Owner-manager’s Age and Financial performance

Brockmann and Simmonds (1997) found a positive correlation between managerial success and age. Thus, the probability of a firm’s managerial success is higher when the manager is older in age as compared to a younger manager. This may be traceable to the level of experience that the manager accumulates with an increase in age. Younger executives also tend to be more risk takers than older executives (Carlsson & Karlsson, 1970).

Smith and Amoako-Adu (1999) report from a study conducted in Canada that the stock market reacts negatively to the appointment of young family successors. This reaction demonstrates that investors seem to have less confidence in younger managers due to the lack of management experience.

Moreover, Kristiansen, Furuholt, and Wahid (2003) studied internet café entrepreneurs in Indonesia and found a significant correlation between age of the entrepreneur and business success. The older (>25 years old) entrepreneurs were more successful than the younger ones. Specifically on firm performance, it has longed been established that age and years of formal education have shown to correlate positively with entrepreneurial firm performance (Hisrich & Brush, 1984; Birley & Norburn, 1987).

Firm Size and Financial Performance

The nature of the relationship between firm's size and business performance has received considerable attention in the literature and has triggered vigorous debate. Several arguments favour larger firm sizes in attaining higher performance. The size of a firm affects performance in many ways. Large firm are more likely to exploit economies of scale and scope, enjoy diverse capabilities, and the formalization of procedures. The above characteristics, when fully actualized will make operations more effective, allow larger firms to generate superior performance relative to smaller firms (Penrose, 1959).

Serrasqueiro and Nunes (2008) also suggested that larger firms enjoy higher negotiation power over their clients and suppliers. In the light of this, they are able to secure goods from their suppliers at affordable prices which give them the ability to dictate the direction of market prices. More so, Armstrong et al. (1998) indicated that a firm with large size is more paramount because its management can implement growth strategy and to the extreme overcome challenges of long term viability of the firm.

Firms with large size are often characterized by large market size and enjoy economies of scale. These characteristics are often essential in industries where substantial fixed and sunk costs are prerequisite for operation. With regard to their size, they can attract labour with the relevant skills and experience to carry out the operations of the firm (Castello & Ozawa, 1999).

The size of firm enables large firms to secure better market opportunities since they have tremendous resources to undertake such projects. Firms with a large size possess advantages including: economies of scale, economies of scope, ability to withstand competition, possess large resources to take advantage of opportunities, ability to secure financial resources from financial institution, and ability to enter new markets (Castello & Ozawa, 1999).

On the contrary, some authors argue that firms with small size are more preferable than firms with large size. Dyer (2006) argued that small size family businesses are characterized by low agency costs. Thus, such a firm is composed of few number of workforce with few varieties of objectives held by these individuals. The owner of the firm can easily influence the objectives, interest, and desire of his staff toward the attainment of the firm's goal. Large firms are made up of different people with different objectives that entirely differ from the objectives of the principal owners of the firms. In effect, there are always the difficulties of synchronising the objectives held by both the owners and employees of the firm. Kole (1995) emphasized that a positive relationship between family ownership and firm performance is sustained at a high level for small firms but at a relatively lower level for large firms. The results imply that the association between family ownership and firm's performance is influenced by the size of the firms.

Firm's size may also influence the information advantages. Eisenhardt (1989) argued that when the principal has better information to verify agent behaviours, the agent is more likely to behave in the interest of the principal. However, the information advantage of such small firms might grow weaker as the firm becomes larger. More so, according to information processing perspective, when a large amount of heterogeneous information needs to be processed at the corporate centre, information overloads are likely to take place (Galbraith, 1973). Under small size firms, information overload is less likely to arise. In view of this, small size firms can be seen as advantageous in the following perspectives: it is less capital intensive; and aids to reduce agency problems and its resultant information asymmetry.

Leverage and Financial Performance

Financial leverage is the proportion of capital which is financed by debt as opposed to equity (Ward & Prince, 2006). This implies that, the higher the leverage, the higher the amount of debt in the capital structure of the firm. Bokpin *et al.* (2010) found that debt levels of firms on the Ghana Stock Exchange vary among industries. Firms use high debt levels in their capital structure and prefer the use of short term debts to equity to finance their operations.

Empirical findings on the impact of leverage on financial performance have, however, been mixed. Marsh (1982) revealed, based on the pecking order theory, that firms with high growth will have relatively high debt ratios. Therefore, there is a positive relationship between growth and leverage. Ward and Prince (2006) stipulated that a profitable business will experience a higher return on equity as borrowing or debt financing increases, since such financing is able to earn at higher rate than it is paying for its borrowed funds.

However, Myers (1977) argued that the value of debt is inversely proportionate to the ratio of the value of growth over the maximized market value of the firm. Myers (1984) also argued that successful companies do not need to place much dependence on the external funding since they rely on internal reserves. Hence there is a negative relationship between debt financing and profitability. Gleason *et al* (2000) found a negative and significant relation of leverage level with firm performance measured by the return on assets and profit margin in European countries.

Location and Financial Performance

Arguably, one of the most significant factors in small business development is the location of the business (Minai & Lucky, 2011) because issues such as the nearness to raw material and customers; accessibility to business premises and service facilities; good road network and busyness of the area of the firm have long been established as important determinants of firm performance (Minai & Lucky, 2011).

Kala and Guanghua (2010) defined location as the choice of where a business is to be located which could be small, medium and large cities or urban or rural locations. This decision is usually dependent on the type of product or service the firm intends to offer, economic situation, the size of the entrepreneur's capital and the composition of local communities. However, it is important to note that even within the broad classification of large cities, the population density and the dispersion of research and development facilities and other services could vary from one location to another within such urban areas.

Kala and Guanghua (2010) reported that the location of business have a positive correlation with firm performance and sustainability. Oort and Raspe (2011) analyzed how firms' locational environment at the individual level, using the presence of a university or the presence of other R&D intensive firms as a measure, affected the survival and growth of newly founded firms in the Netherlands. By applying multilevel estimation methods and taking into account potential selection biases using a Heckman approach, they found that location does, indeed, affect new firm performance.

Similarly, Sahin, Nijkamp, and Stough (2011) found that the wealth and progress of multicultural urban regions is not only influenced by an efficient usage of traditional production factors, but also—and in particular—by social and human factors. Social capital (e.g., economic synergy through open multi-actor networks, cooperative modes of initiatives among stakeholders and business actors) and human capital (e.g., motivational incentives, leadership style, and locus of control) are seen as critical success factors for enhanced business performance in multicultural entrepreneurial regions, especially urban areas. However, some studies report that the impact of location is not that significant when compared with other industry or firm-internal factors (Badunenko et al. 2008).

Conceptual Model

As demonstrated in review of literature, many writers (e.g., Dube et al., 2011; Mallin, 2010; Kohler & Deimel, 2012) argue that, it is inappropriate to use corporate governance requirements of large firms to study small and medium scale enterprises in view of the distinct differences between these two categories of businesses. These authors, therefore, suggested certain variables applicable to SMEs which have been adapted for this current study.

Specifically, the model used by Achchuthan and Kajananthan (2013) to study the effects of corporate governance practices on the firm performance of listed manufacturing firms in Sri Lanka, shown in Figure 1, was adapted to construct a conceptual model for this study, depicted in Figure 2. However, the study over concentrated on board activities at the expense of other important measures of corporate governance.

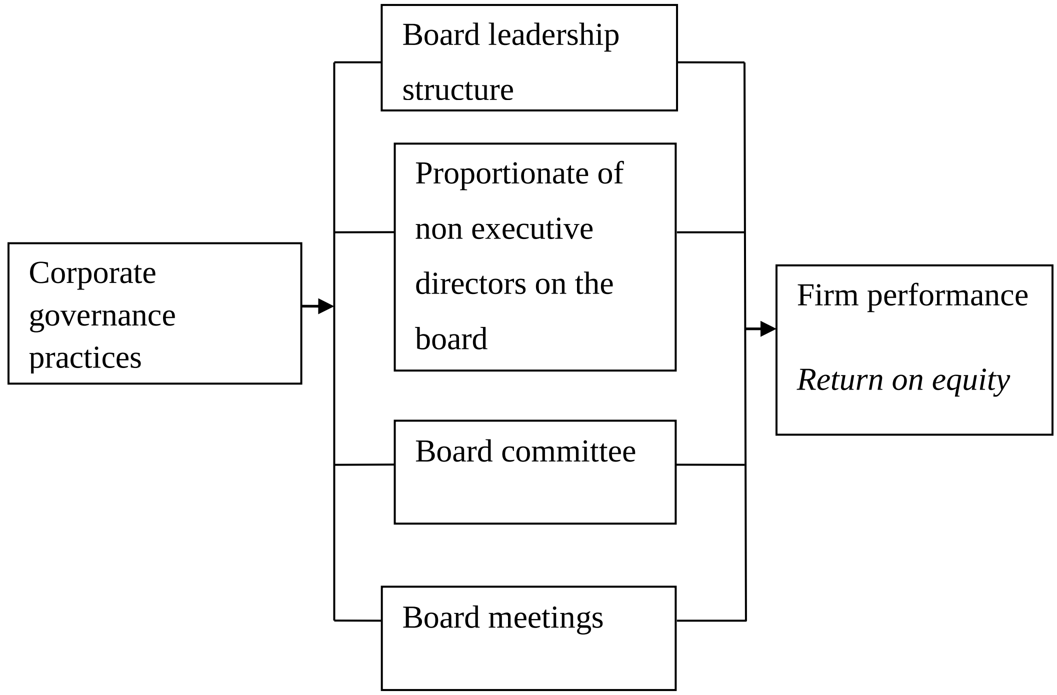

Figure 1: Conceptual framework on the effects of corporate governance practices and firm performance

Source: Achchuthan & Kajananthan (2013)

This current study did not only broaden the indicators of corporate governance within the settings of SMEs but also catered for the effects of intermediating variables on corporate governance and financial performance relationship. According to Sweeney (2009), access to capital and business reputation may mediate this nexus. Figure 2 illustrates how the independent variables (board size, intensity of board activity, stakeholder engagement, strategic competence, managerial competence and corporate social responsibility) influence financial performance. The model also caters for the effects of control variables (firm's size, firm age, leverage, location and owner/managers age) on financial performance.

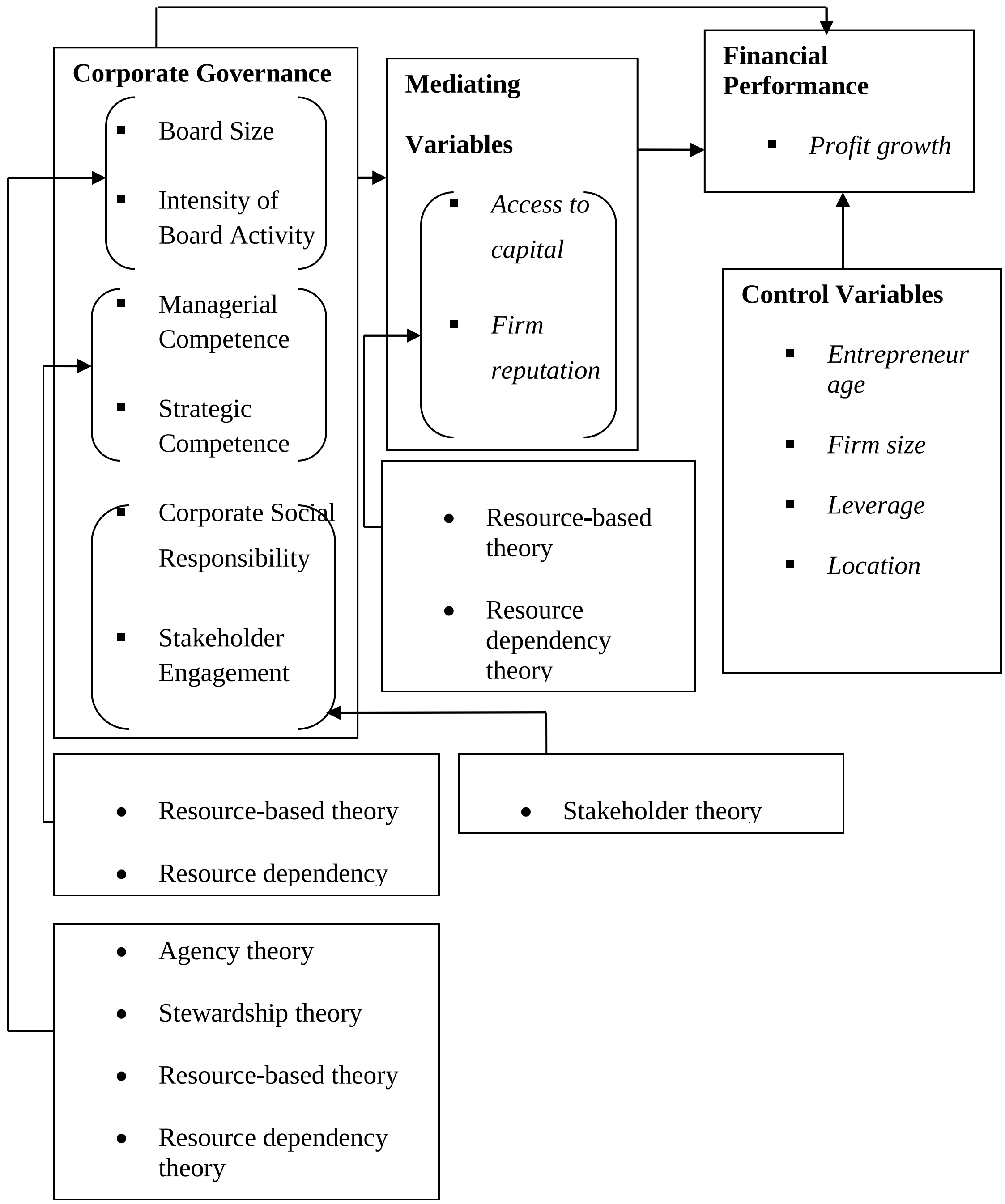

Figure 2: Conceptual framework on the effects of Corporate Governance on Financial Performance of SMEs

Source: Adapted from Achchuthan and Kajananthan (2013)

CHAPTER FOUR

RESEARCH METHODOLOGY

Introduction

This study examines the effects of corporate governance on financial performance of SMEs in the Accra metropolis. This chapter outlines the methodology used to carry out the study. It links the theoretical and empirical dimensions of the study. Specifically, it discusses the research design, study area, study population, sampling procedure, data collection instrument, data collection procedures, data analysis and processing.

Research Design

There are several philosophical perspectives that have influenced the structure, process and direction of social research. However, the positivist paradigm (Sarantakos, 1997) and its respective quantitative methods provide the theoretical basis for the methodology employed in this study. The positivist paradigm guides the quantitative mode of inquiry and it is based on the assumption that social reality has an objective ontological structure and that individuals are responding agents to this objective environment (Morgan & Smircich, 1980).

The assumption behind the positivist paradigm is that there is an objective truth existing in the world that can be measured and explained scientifically. The main concerns of the quantitative paradigm are that measurement is reliable, valid, and generalisable in its clear prediction of cause and effect (Cassell &

Symon, 1994). Being deductive and particularistic, quantitative research is based upon formulating research hypotheses and verifying them empirically on a specific set of data (Frankfort-Nachmias & Nachmias, 1992).

There are stronger arguments in favour of quantitative methods relative to qualitative approaches: The research problem is stated in a very specific and set terms (Frankfort-Nachmias & Nachmias, 1992); quantitative investigations clearly and precisely specify both the independent and the dependent variables under investigation; firmly follow the original set of research goals, arriving at more objective conclusions, testing hypothesis, determining the issues of causality; having high levels of reliability of gathered data due to controlled observations, laboratory experiments, mass surveys, or other form of research manipulations (Balsley, 1970); and finally, they eliminate or minimize subjectivity of judgment (Kealey & Protheroe, 1996).

In spite of these strengths, Matveev (2002) identified the weaknesses of quantitative studies as: Firstly, they fail to provide the researcher with information on the context of the situation where the studied phenomenon occurs. Secondly, the researcher has no control over the environment where the respondents provide the answers to the questions in the survey. Also, these approaches limit outcomes of research to only those outlined in the original research proposal due to the usage of closed type questions and a structured format. Lastly, they discourage the evolving and continuous investigation of a research phenomenon.

On the other hand, interpretive approach is a systematic analysis of socially meaningful action through the direct detailed observation of people in natural settings in order to arrive at understandings and interpretations of how people create and maintain their social world. It is concerned with how ordinary people manage their practical affairs in everyday life, or how they get things done (Neuman, 2003).

Interpretive researchers often use participant observation and field research. These techniques require that researchers spend many hours in direct personal contact with those being studied. Others analyse transcripts of conversations or study video tapes of behaviour in extraordinary detail. The interpretive paradigm guides the qualitative mode of research. Qualitative approach is mainly descriptive and involves the collection and analysis of data that is concerned with meanings, attitudes and beliefs, rather than quantitative method that results in numerical counts from which statistical inferences can be drawn (Ogier, 2002).

Mixed methods begins with the assumption that investigators, in understanding the social world, gather evidence based on the nature of the question and theoretical orientation. Social inquiry is targeted toward various sources and many levels that influence a given problem (e.g., organizations, family, individual). Quantitative (mainly deductive) methods are ideal for measuring pervasiveness of "known" phenomena and central patterns of association, including inferences of causality. Qualitative (mainly inductive) methods allow for identification of previously unknown processes, explanations of why and how phenomena occur, and the range of their effects (Pasick et al., 2009). Mixed methods research, then, is more than simply collecting qualitative data from interviews, or collecting multiple forms of qualitative evidence (e.g., observations and interviews) or multiple types of quantitative evidence (e.g., surveys and diagnostic tests). It involves the intentional collection of both quantitative and qualitative data and the combination of the strengths of each to answer research questions.

The research methods in an investigation must fit the research problem or question. Problems most suitable for mixed methods are those in which the quantitative approach or the qualitative approach, by itself, is inadequate to develop multiple perspectives and a complete understanding about a research problem or question. For example, quantitative outcome measures may be comprehensible using qualitative data. Alternatively, qualitative exploration may usefully occur prior to development of an adequate instrument for measurement. By including qualitative research in mixed methods, investigators can study new questions and initiatives, complex phenomena, hard-to-measure constructs, and interactions in specific, everyday settings, in addition to experimental settings.

Several purposes capture the major reasons for using mixed methods in research. Researchers may seek to view problems from multiple perspectives so as to enhance and enrich the meaning of a singular perspective. They also may want to contextualize the information, to take a macro picture of a system and add in information about individuals. The second reason is to merge quantitative and qualitative data to develop a more complete understanding of a problem; to develop a complementary picture; to compare, validate, or triangulate results; to provide illustrations of context for trends, or to examine processes/experiences along with outcomes (Plano, 2010).

The third reason is to have one database build on another. When a quantitative phase follows a qualitative phase, the intent of the investigator may be to develop a survey instrument, an intervention, or a program informed by qualitative findings. When the quantitative phase is followed by the qualitative phase, the intent may be to help determine the best participants with which to follow up or to explain the mechanism behind the quantitative results (Plano, 2010). Given the nature of the research problem being investigated in this study, the quantitative approach is deemed more appropriate. Several scholars (e.g. Abor & Bikpe, 2007; Al-Najjar, 2009; Arosa et al., 2012) employed this approach when investigating the phenomenon in Ghana and other countries.

Study Design

A review of literature demonstrates that considerable amount of research have been conducted on the effects of corporate governance and financial performance, albeit with some weaknesses within SMEs context. There exists much literature which appears relevant, particularly theories (e.g. agency theory, stakeholder theory and shareholder theory) underpinning this subject. Hence, detailed exploratory research would run the risk of generating particular cases which would not provide a connection to this existing literature and would limit the ability to make general claims about corporate governance and its effects on financial performance. The research objectives are better answered by testing the relevance of this existing literature. Quantitative methods, such as surveys, are typically used in research with a theory testing orientation (Newbery, 2010). As such a quantitative approach is deemed appropriate, with its ability to gather a broad range of data, evidenced by existing research, test of hypotheses to make general claims regarding the results. Therefore, to explore the hypotheses, the research methodology was based upon the design and implementation of a large scale survey of SMEs in the Accra Metropolis. This is consistent with the approach of Abor and Biekpe (2007), Hamad (2011) and Arosa et al. (2012).

A correlation research design was used for the study. According to Creswell (2009), correlational design is undertaken by a researcher who is interested in the extent to which two variables or more co-vary, when changes in one variable are reflected in the other. This study design was considered a valid method to examine the effects of corporate governance constructs on the financial performance of SMEs, given that, neither the dependent variable nor the independent variables could be manipulated. Also, data collected for analysis was based on self-reported questionnaire and could not be subjected to definite cause-effects analysis as in the case of experimental studies.

Study Area

The capital and largest city of Ghana is Accra, with the population of the city estimated at 3,963,264 as of 2011. Accra is also the capital of the Accra Metropolis. Ghana's first President, Dr. Kwame Nkrumah, declared Accra a city (the first city of Ghana) in 1961 and demarcated Accra into six sub-metropolis namely; Ashiedu Keteke, Osu Klotey, Ayawaso, Ablekuma, Kpeshie and Okai Koi sub-metropolis. The L.I. 1615 of 1995 recreated the metropolis into 13 sub-metropolis which was later repealed by the L.I. 1926 of 2007 which delineated two sub-metropolis from the Accra Metropolitan Assembly (AMA) to create the Ledzokuku/Krowor Municipal Assembly therefore leaving eleven Sub-Metros to form the AMA.

The study area shares its northern boundary with the Ga West District and the southern boundary is engulfed by the Gulf of Guinea. The eastern border of the metropolis is the Ledzokuku-Krowor Municipality, which was carved out of the Accra Metropolis. The metropolis is bounded to the West by the Ga South Municipality. Figure 3 shows the map of the study area.

According to Ghana Statistical Service (2012), the metropolis is the second most industrialised area in Ghana, contributing to employment and over 10 percent to the GDP in 2010. The manufacturing sector employed about 276,507 or 69.6 percent of the industrial employment. Construction, the second largest industrial employer, had a labour force of 26.7 percent. Commercial activities are characterised by a few large and medium size enterprises engaged in import, export, wholesale, distribution, and retail businesses and a myriad of small-scale traders, suppliers, transporters, and retailers. Commerce is the largest and most visible sub-sectoral activity.

Although the large firms account for the highest value addition to raw materials, they represent just a fraction of the labour employed in the commercial sub-sector; their turnover is about one-half of the total in the sub-sector. Next are the small stores and market stall owners who also depend to a large extent on the wholesaling functions of the large-scale commercial units. A few of them obtain their supplies directly from the industrial establishments within the metropolitan area and from abroad. These, together with the large units, account for between 70 and 80 percent of the value of the total turnover of the commercial activities (Ghana Statistical Service, 2012).

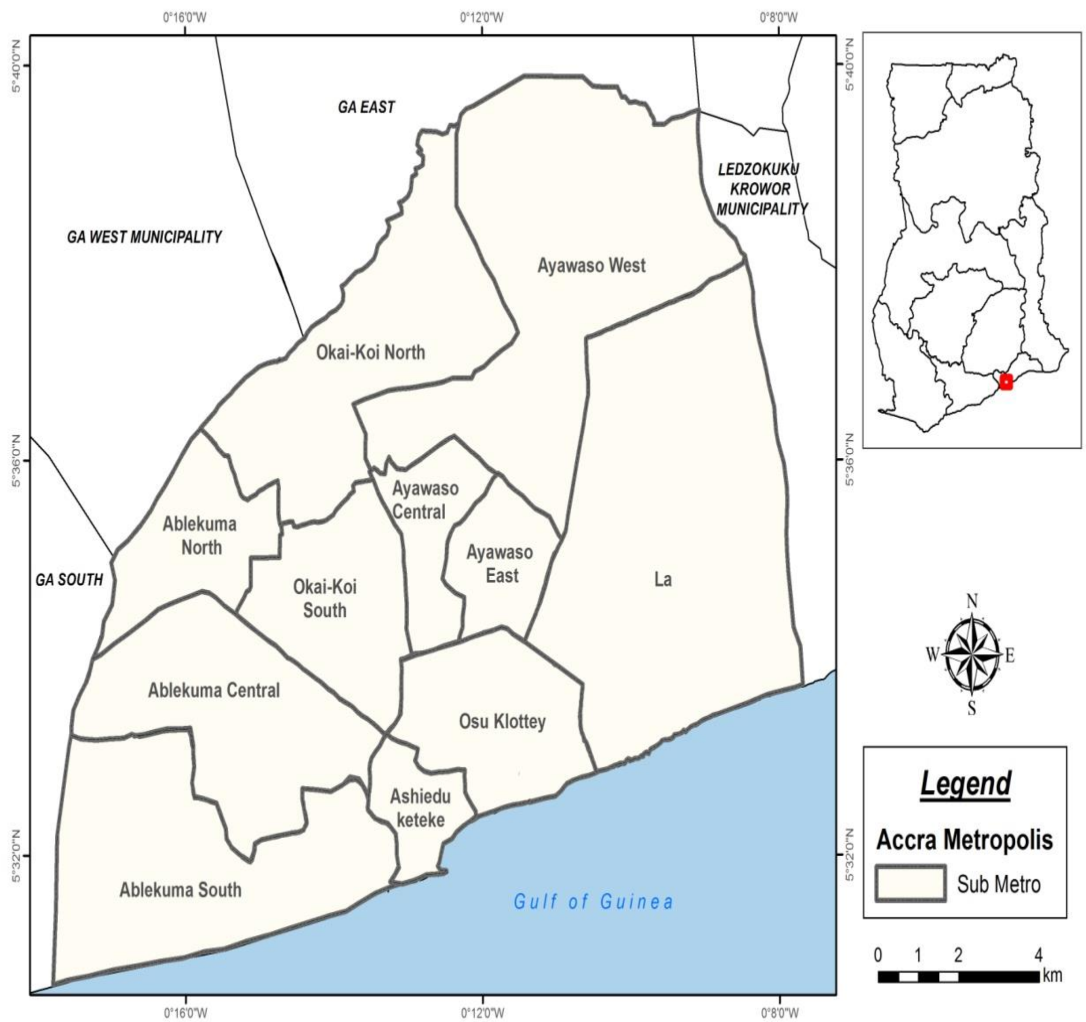

Figure 3: **Map of Accra Metropolis**

Source: World Bank (2010)

Population

The focus of this study is to determine the effects of corporate governance on financial performance of SMEs in the Accra Metropolis, hence, the target population for the study thus comprised of all SMEs within the Accra Metropolis. The accessible population was defined as all SMEs which had registered with the National Board for Small-Scale Industries (NBSSI) and the Association of Ghana Industries (AGI) in the Accra Metropolis as at September, 2013.

Table 3: Distribution of population by sub-metropolis and firm size

Sub-metropolis	Medium-sized	Small-sized	Total Population
Ashiedu Keteke	73	137	210
Osu Klottey	70	127	197
Ayawaso East	23	48	71
Ayawaso Central	15	30	45
Ayawaso West	57	102	159
Ablekuma South	91	152	243
Ablekuma Central	22	59	81
Ablekuma North	85	150	235
Okai Koi North	92	179	271
Okai Koi South	121	232	353
La	78	140	218
Total	727	1356	2083

Source: Survey data, 2014

These registered businesses appear more organised and well-structured and lend themselves to some tenets of corporate governance such as having advisory boards. The total number of SMEs recorded in the NBSSI's and AGI's registers by location in the Metropolis was 2,083 as shown in Table 3. The population was classified using the 11 sub-metropolis and the size of the firms.

Sampling Procedure

In view of the size of the population, it was necessary to determine a sample size for the study. The reasons advanced for the use of sample surveys instead of census are that when dealing with a large population a complete coverage of the population does not offer any advantage over the sample (Kariuki, Wanjau & Gakure, 2011). Samples can also provide accurate information within a relatively fewer resources (finance, time, and labour) and may be more efficient than the census. The optimum sample size would be used to fulfil the requirements of efficiency, representativeness and reliability since unnecessarily large sample size would bring about data duplicity besides having cost and time implications while a small sample size would not be representative (Kariuki, Wanjau & Gakure, 2011).

Sarantakos (2005) and Krejcie and Morgan (1970) consider that a sample size should be determined either by direct calculation using statistical formulas appropriate to the nature of the study or by reference to tables which set out recommended sample sizes for given populations. Based on the table developed by Krejcie and Morgan (1970), with an approximate population size of about 750 for medium-sized firms and 1400 for small-sized firms and to ensure a 5 percent margin of error, the sample size should be 556 (i.e. 254 and 302 respectively).

Table 4: Distribution of sample by sub-metropolis and firm size

Sub-metropolis	Medium-sized	Small-sized	Total
Ashiedu Keteke	26	31	57
Osu Klottey	24	28	52
Ayawaso East	8	11	19
Ayawaso Central	5	7	12
Ayawaso West	20	23	43
Ablekuma South	32	34	66
Ablekuma Central	8	13	21
Ablekuma North	30	33	63
Okai Koi North	32	39	71
Okai Koi South	42	52	94
La	27	31	58
Total	254	302	556

Source: Survey data, 2014

Simple random sampling technique (using graphing calculator) was used to randomly select respondents for inclusion into the sample electronically. A graphing calculator is a soft-ware programme that allows a researcher to randomly generate integers after specifying the size of the population and sample required for a study. It is convenient and faster than the manual method of trying to generate random figures. The owners-managers of SMEs were the target respondents. These owners-managers were chosen because they had vital information in relation to the governance and financial performance of these firms.

Data Sources

Both primary and secondary data sources were used for the study. The primary data was collected through the use of questionnaire administered to owner/managers of SMEs in the Accra Metropolis. The secondary data were collected from journal articles, books, publications, the internet and official reports from the National Board for Small Scale Industries and the Association of Ghana Industries. The Institute for Development Studies library and the School of Business library were visited for publications such as books, professional and academic journals, and reports.

Data Collection Instrument

The instrument used for this study was questionnaire administered to owners/managers of SMEs by the researcher and trained research assistants of the University of Cape Coast because the research objectives are better answered by testing the relevance of existing literature. According to Sweeney (1999), questionnaires do not emerge fully-fledged; they have to be created or modified, shaped and developed to maturity after several test flights. Every aspect of a survey has to be tried out beforehand to make sure that it works as intended. As recommended by Netemeyer and McMurrian (2003), once the questionnaire was developed in reflection of current literature on the research topic, it was peer reviewed by academic colleagues who have undergone the process of survey development and analysis previously. Also, a review of literature (de Vaus 1993; Saunders & Thornhill, 1997) reveals the following as the main contributions of a pilot study.

1. Provide an indication of the response rate to be expected of the final study.
2. Test for questions with a very low response rate. This may indicate that the question is unclear, too intrusive, appear to have nothing to do with the stated objective of the study or appear too similar to previously answered questions.
3. Test the efficiency of instructions within the questionnaire.
4. Provide an indication of the probable cost and duration of the main survey.
5. Allows for an evaluation of how respondents understood the questions meaning.
6. Checks whether the range of responses to each question is adequate.
7. Test if filter questions are correctly understood by respondents.
8. Test the coding of questions, especially open ended questions and ‘other’ responses to closed questions.
9. Test for duplicate questions, for example if two questions are measuring virtually the same thing one should be deleted.
10. The most valuable function of the pilot is to test the adequacy of the questionnaire.

While the pilot study is unlikely to reveal all challenges of the main survey, it should result in important improvements to the questionnaire and may influence the scope and perhaps necessity of the main survey (Sweeney, 2009). Hence, a pilot study of the questionnaire was undertaken in February 2014. The questionnaire was administered to a sample of fifty SMEs in the Sekondi-Takoradi Metropolis. Each respondent was informed that this was a pilot study and were encouraged to provide feedback on any problems that they experienced while completing the survey, as recommended by de Vaus (1993).

In total, the pilot study recovered a response rate of 62 percent. The response rate seems quite high in spite of some complaints from respondents about the length of the questionnaire. A response rate of 60-65 percent was expected for the final survey. The study aimed to receive 556 completed questionnaires to ensure an adequate analysis of all research questions.

Questions relating to ascertaining actual data on financial performance proved to be the most problematic with low response rates. Questionnaire feedback indicates that this is the case because the information was deemed confidential. A review of the situation lead to the conclusion that it is not necessary to obtain actual profit figures to measure financial performance, rather, the subjective measures of financial performance would be maintained to ensure high response rate.

It was clear from the pilot study that all the respondents found questions related to the objective measurement of financial performance difficult to answer and somewhat intrusive and were reluctant to answer. Indeed, none of the respondents answered this aspect of the questionnaire. Low response rates were also experienced by questions regarding the number of advisors on the board of the respondents' firm and the number of times management meet with these board of advisors. Questionnaire feedback clearly suggests respondents were unclear with regard to the meaning of the term 'board of advisors' and how different it was from board of directors. Hence, two new distinct set of questions were set to separate these two concepts, although, the number of advisors would merely serve as a proxy for number of directors within the context of SMEs. The question on 'board of advisors' was also recast to exclude 'board'.

Given that variables used in this study were adapted from previous related literature, reliability test was again conducted to ensure their internal consistency. The 14-item measure of managerial competencies had a good internal consistency with a Cronbach alpha coefficient of 0.936. The 11-item scale that measures corporate social responsibility also had an alpha coefficient of 0.877 indicating a good internal consistency.

Again, the strategic competencies scale consisting of 15 items reported a Cronbach alpha coefficient of 0.938 which shows a high level of internal consistency and the 8-item measure of stakeholder engagement was 0.911. In the case of both managerial competencies and corporate social responsibility some test items were deleted (1 and 8 test items respectively) to achieve these Cronbach alpha coefficient scores. For indicators on firm's reputation, access to finance and financial performance, the alphas reported were 0.915, 0.901 and 0.747 (Mean inter-item correlations = 0.499 with values ranging from 0.370 and 0.654) respectively.

The questionnaire used for the study was sub-divided into 9 sections (A-I). The first section covered the background information of respondents' age, gender, educational level, work experience and start-up experience. The second section captured information about the organization's size, core business, age, location, ownership structure, presence of branches, board size and intensity of board activity.

The third and fourth sections focused on entrepreneurial competencies. The second section specifically addressed managerial competence issues such as effective delegation, co-ordination, risk management, regulatory compliance, motivation, planning and so on; while, the third section focused on strategic competence data on establishing longer term directions for the firm, setting realistic goals, having a personal vision for the firm, making strategic changes responsively and flexibly, having contingency and flexible plans and so on.

The fifth and sixth sections sought for data on stakeholder relations consisting of corporate social responsibility and stakeholder engagement. Some of the CSR information involved energy conservation, supply of clear and accurate information and labelling of products and services, resolving of customer complaints in timely manner, quality assurance criteria adhered to in production, being committed to the health and safety of employees, recruitment policies that favour the local communities and donation to charity. The stakeholder engagement question solicited for data on the extent the firm engage with stakeholders who are directly affected by the organization's operations, those who have an interest in, or influence over the organization's operations, stakeholders who have knowledge about the impact of the operations of the firm, authorities or regulators who exercise control over an industry and several other types of stakeholders.

The seventh section was on firm reputation. It dealt how stakeholders would rate a firm on the quality of products and services, staff, environmental responsibility, community responsibility and the quality of management. The eighth section addressed the main source of finance and how easy the respondent could access funds from banks, lending institutions and investors. The final section collected data on financial performance with respect to sales growth, profit growth and leverage. The survey method is deemed appropriate when soliciting for factual information from a large group of respondents (Jankowicz, 2000).

Measurement of variables

The constructs for measuring the dependent variable and independent variables were measured by relying on previous studies in the respective areas. In some cases, a construct for a dependent variable was modified to reflect governance issues. However, the major weakness identified with most of the constructs was the use of Likert-scale type questions for measurement and then applying mean as the measure of central tendency during the statistical analysis of the responses generated. According to Edmonson (2005), an inherent assumption of any Likert scale is that although the scale is truly ordinal in nature, it is assumed to be on an interval scale with which statistical properties such as the mean can be justifiably used. However, this assumption was never the intent of the original Likert study.

Edmonson (2005) contends that just because a 1 to 5 is used to show the level of agreement as well as disagreement with a particular scaled item and construct does not mean that the average score should be used when conducting statistics on the results. The 1 to 5 scale is ordinal in nature rather than a true interval scale; therefore employing means and standard deviations is inappropriate where Likert scaled items were employed.

Because of the weaknesses associated with Likert scales, continuous scales were used instead. Using continuous scales, which are also labelled as graphic rating scales does not only allows for generating interval-scaled data, but also avoids the cognitive effort of matching semantic statements with numbers (Treiblmaier & Filzmoser, 2009). Firm reputation was measured based on the items employed by Sweeney (2009). Sweeney (2009) originally intended to use fifteen variables to gain insight into firm’s reputation as held by customers, employees and other firms within the same industry. Factor analysis technique was then used to reduce this number.

Finally, after conducting multicollinearity test, some variables were further eliminated and firm reputation was measured based on ratings other firms in the same sector would award the firm on the basis of financial performance, long term investment, quality of products and services and quality of management. Similarly, Sweeney (2009) measure of access to capital was adopted for this study.

Board size was measured by the number of directors and/or advisors of the firm (Abor & Biekpe, 2007; Kyereboah-Coleman & Amidu, 2008) while the intensity of board activity was measured as the number of board meetings held annually (Kyereboah-Coleman, 2009; Arosa et al., 2012). Most of the human capital variables for measuring managerial competence were borrowed from Nakiyinga (2007). The author reported a Cronbach's alpha of 0.8021 for this construct.

However, since the focus of this construct is on corporate governance, a number of managerial competence test items identified from literature such as the ability to prepare accounts based on accounting standards; annual auditing of financial statements; making audited financial statements available to interested stakeholders; preparation of annual budgets; ability to propose solutions to negative deviations from budgeted estimates; publication of annual management and accomplishment statement; and the presence of clear management structure were included.

The measurement of strategic competence was adapted from Man (2011). The 10-item measure of the strategic managers reported a Cronbach's alpha of 0.94. The items used largely reflect the requirements of corporate governance in SMEs. Sweeney's (2009) scaled measurement of CSR was adapted for this study. The test items have been grouped to deal with CSR activities centred on employees, customers, community and the environment.

The questionnaire was developed in reflection of the current literature in the area. It was also peer reviewed by academic colleagues and supervisors who have undergone the process of survey development and analysis previously. This was carried out to ensure clarity was obtained and ensure that no irrelevant questions were included in the survey. Several studies (Dawes, 1999; Sweeney, 2009; Man, 2011) have adopted the subjective approaches to measuring the financial performance of small and medium enterprises. Profit growth has also been the commonest indicator employed to measure financial performance (Moore, 2006; Burton & Goldsby, 2009, Sweeney, 2009, Man, 2011).

Some reasons have been advanced as to why subjective measure of firm performance is appropriate. According to Man (2011), the use of scales is a better alternative to measure SME performance than to use actual figures due to the unwillingness of SME owner/managers to disclose these sensitive figures. In a similar vein, Dawes (1999) also provided some reasons why subjective measure of firm performance is appropriate.

First, managers may be reluctant to disclose actual performance data if they consider it commercially sensitive or confidential (Man, 2011). Second, subjective measures may be more appropriate than objective measures for comparing profit performance in cross-industry studies. This is because profit levels can vary considerably across industries, obscuring any relationship between the independent variables and company performance. Subjective measures might be more appropriate in this situation because managers can take the relative performance of their industry into account when providing a response (i.e. rate the profit performance of your firm relative to others in your industry). Lastly, there have been several studies that show a strong correlation between objective and subjective measures (e.g. Wall et al., 2004).

According to Richard et al. (2009), researchers should not view the choice of subjective measures as a second best alternative but should determine the most favourable measure under the particular circumstances of the research context. To measure financial performance, this study would adapt the measurement employed by Man (2011) which emphasised profit growth. The variables controlled for included owner/manager characteristics (i.e. the entrepreneur's age) and firm characteristics such as leverage, location, firm age and size.

Data Collection Procedures

The fieldwork for the survey was conducted between May and August 2014 by the researcher and research assistants. This took that long because of the usual reluctance of the SMEs owner-managers to spend time to answer these questions, though they were very cooperative at the end. The collection of the secondary data and information from the necessary agencies began two months earlier and went on until October, 2015.

Data Processing and Analysis

Data collected from the survey design were analysed quantitatively using both descriptive and inferential statistics. The data collected were first edited to remove errors and then coded accordingly. The data obtained were processed using the computer software; Statistical Product and Service Solutions (SPSS 21.0 version).

A multiple regression analysis technique and Baron and Kenny's (1986) mediation regression procedure were employed to test hypotheses. Sobel's test was also used to ascertain the significance of the mediation effect, if any. This section also discusses the conditions that must be met for a mediation effect to be established.

Mediation Analysis

According to Kim, Kaye and Wright (2001), a mediator or intervening variable is a mechanism through which an independent variable is able to influence a dependent or criterion variable. Several statistical strategies for testing mediating effect have been recommended in the extant literature (which includes path analysis and structural equation modelling). This study employed Baron and Kenny's (1986) mediation regressions approach. Baron and Kenny (1986) proposed that mediation regression requires three equations to be computed.

In the first equation, the mediator variable is regressed on the independent variable. In the second equation, the dependent variable is regressed on the independent variable and in the final equation, the dependent variable is simultaneously regressed on both the independent and mediator variables. In addition, Baron and Kenny (1986) outlined four conditions that must be met for a mediation effect to be ascertained. The four conditions are summarized as follows:

1. The independent variable must be significantly related to the mediator variable.
2. The independent variable must be significantly related to the dependent variable
3. The mediator variable must be significantly related to the dependent variable
4. The effect of the independent variable must be less in equation three than in equation two.

When all four conditions are met, a mediation effect is present on the relationship between the dependent and independent variables. Further, if the beta coefficient for the independent variable is significant in equation two but not significant in equation three (i.e., when the mediator variable is controlled for) then a full mediation effect is achieved. Partial mediation is present when the beta coefficient for the independent variable in equation three is less than the beta weight in equation two, but is still significant.

One limitation of the causal steps approach, as Baron and Kenny recognized is that there is no statistical test of the strength of the indirect effect. To ameliorate this problem, Baron and Kenny suggest the use of the Sobel test or often called a product of coefficient strategy to test the significance of an indirect effect. Sobel's test was conducted to examine the significance of the mediation effect (See Tables 11, 12, 15, 16, 18, 19, 21, 22, 24 and 25) where mediation was found in this study.

Ethical consideration

Besides dealing with the technical side of this study (i.e. the issues of research design, data collection and analysis), the moral or ethical dimension was considered. Just as practical considerations can prevent researchers from implementing the ideal research design or obtaining as large or diverse a sample as desired, so can ethical considerations constrain scientific enquiry.

This study was designed in such a way that it did not pose any threat whatsoever or have the potential of posing any threat to the respondents. The second ethical consideration in research was that of informed consent. For moral and legal reasons, the respondents were not coerced into participating in the research. The respondents understood that their participation was voluntary. They were also given enough information about the research to make an informed decision about whether to participate or not.

The issue of informed consent was catered for in this study by making sure that the respondents for the study were briefed to know the purpose of the research. The respondents' rights to privacy were protected by guaranteeing anonymity and confidentiality. All the questionnaires did not capture names of respondents and the corresponding firms.

Conclusion

This chapter has dealt with the source and instrument used for data collection in this study. Justifications for the chosen survey instrument and statistical methods have been provided. Questionnaires were employed to collect primary data from owners/managers of SMEs in the Accra Metropolis. The use of standard multiple regression and mediational analysis to test the hypotheses was also justified.

CHAPTER FIVE

BOARD STRUCTURE AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES

Introduction

The purpose of this study is to examine the effects of corporate governance on financial performance of SMEs in the Accra Metropolis from the positivists' paradigm. Questionnaire was used for data collection while multiple regression analysis was used for data analysis. Finally, Baron and Kenny's (1986) mediation was employed to examine the mediating influence of access to capital and firm reputation on the hypothesized relationships.

This chapter begins with findings of the characteristics of respondents and SMEs in the Accra Metropolis, the descriptive statistics of study variables, an assessment of the normality of data and the internal consistency measure for each variable used in the study. Also, it examines the relationships between board size and intensity of board activity on the financial performance of SMEs. The Sobel's test was utilised to test for the significance of the mediating influence of access to capital and firm reputation on these relationships.

Demographic Characteristics of Respondents

A total of 423 owners/managers made up of 242 males and 181 females participated in the study. The demographic characteristics of respondents presented in Table 6 include sex, age, educational level, and owner/manager's years of experience. From Table 5, it was revealed that 57.2 percent and 42.8

Table 5: Demographic Characteristics of Respondents

Variables	Category	Frequency	Percent
Sex	Male	242	57.2
	Female	181	42.8
Age	Youth	152	35.9
	Elderly	271	64.1
Educational level	Never been to school	8	1.9
	Junior high	80	18.9
	Senior high	125	29.6
	Tertiary level	210	49.6
Years of experience	1-10	199	47.0
	11-21	165	39.0
	22-32	40	9.5
	33-43	16	3.8
	44-54	3	0.7

N= 423; Source: Survey data, 2014

percent of the respondents were males and females respectively. Concerning the age distribution of participants, the study indicated that the elderly (above 35 years) constituted the largest proportion, which was 64.1 percent. This was followed by the youth (18-35 years age category) which recorded 35.9 percent. The definition of youth is based on African Youth Charter (2006). In terms of educational level, the analysis showed that the 49.6 percent of the participants had tertiary level education. This was followed by 29.6 percent who were senior high school graduates. Also, 18.9 percent of the respondents were junior high school graduates whereas 1.9 percent had never been to school. About 49.6 percent of the owner-managers had between 1 to 10 years of working experience.

Firm Characteristics

Table 6 presents the firm characteristics. With respect to the core businesses they were engaged in; 11.1 percent were into crafts and arts, 19.4 percent in agro-business, 28.1 percent were trading and 41.4 percent were into other kinds of businesses not specified. The majority (67.8 percent) of these businesses have been in existence from 1 to 14 years. Only 2.6 percent have existed for six decades and above. The total number of respondents was 423. With regard to ownership structure, 62.9 percent of the businesses were sole proprietorship while 16.3 percent were partnerships. Only 17.3 percent of these businesses were incorporated companies. These findings are consistent with several others (Dube et al. 2011, Mallin, 2010, Kohler & Deimel, 2012, etc) that have maintained that the configuration of SMEs are different from large firms and might therefore have corporate governance mechanisms departing from the conventional standards of larger firms.

The study also explored the main source of finance of these businesses. Of the 423 respondents that participated in the study, the majority (51.1%) funded their business operations from personal savings. This was followed by those who had financial assistance from banks (31.2%). This might explain why the youth are less able to own businesses because given their age category (18-35 years),

Table 6: Characteristics of SMEs

Variables	Category	Frequency	Percent
Age of business (years)	1-14	287	67.8
	15-29	91	21.5
	30-44	26	6.1
	45-59	8	1.9
	60-74	11	2.6
Ownership structure	Sole proprietorship	266	62.9
	Partnership	69	16.3
	Company	73	17.3
	Others	15	3.5
Main source of finance	Personal savings	216	51.1
	Bank	132	31.2
	Investors	26	6.1
	Family investment	23	5.4
	Friends	8	1.9
	Others	18	4.3
Core business activity	Crafts and arts	47	11.1
	Agro-business	51	12.1
	Food processing	31	7.3
	Trading	119	28.1
	Others	175	41.4

N= 423; Source: Survey data, 2014

they would not have accumulated enough savings nor built any track record to access funds from financial institutions to establish businesses. The literature review has demonstrated that these variables do have a significant relationship with financial performance and hence, some were employed as control variables in this study.

Descriptive Statistics of study variables

This section presents results of various tests conducted to ensure that the data meets the conditions necessary for the application of parametric statistics such as a regression analysis. One of which is testing for the normality of the distribution of data. Normality testing could be conducted graphically or quantitatively (Field, 2009). In checking for the normal distribution of the data, kurtosis and skewness index were employed for each variable. Following Kline's (2005) rules of thumb, absolute values of skew index less than 3 and kurtosis index below 10 suggest that the data is normally distributed. The skewness and kurtosis indexes as illustrated in Table 7 revealed that all the constructs were normally distributed. Hence, the assumption of normality was met for the use of parametric statistics for the data analysis (Harrington, 2009).

In addition, the reliability coefficients (Cronbach's α) were computed to establish the internal consistency measure of each construct. All the constructs had satisfactory reliabilities based on Nunnally and Bernstein (1994), who suggested that the coefficient alpha should be greater than or equal to 0.70 if a set of items can constitute a reliable scale. The alpha values ranged from 0.79 to 0.86

as shown in Table 7 after taking the natural logarithms of firm reputations, access to capital, leverage and profit growth.

Table 7: Descriptive Statistics and Reliability indices of study variables

Variables	Min.	Max.	Mean	SD	Skewness	Kurtosis	α
BS	0.00	20.00	3.09	3.85	1.35	1.48	--
IBA	0.00	12.00	1.67	2.51	2.48	7.18	--
MC	1.64	5.00	4.05	0.52	-0.88	1.66	0.80
SC	1.33	5.00	3.85	0.65	-1.07	1.70	0.80
CSR	1.92	5.00	3.88	0.59	-0.53	0.50	0.79
SE	1.00	5.00	3.79	0.68	-1.06	1.91	0.79
FR	1.40	5.00	3.97	0.59	-1.03	2.21	0.79
AC	0.00	3.09	0.90	0.50	-0.35	-0.05	0.86
FP	0.69	3.14	1.88	0.33	-1.73	4.94	0.84
LE	0.00	3.40	1.19	0.35	-1.00	7.43	0.82

Note: SD = Standard deviation; MC = Managerial competence; SC = Strategic competence; CSR = Corporate social responsibility; SE = Stakeholder engagement; BS = Board Size; IBA = Intensity of Board Activity; FR = Firm reputation; AC = Access to capital; LE = Leverage; FP = Financial performance

Source: Survey data, 2014

The correlation coefficients between the predictor variables (shown in Table 8) ranged from 0.00 to 0.69 which were all below the threshold of 0.80 (Field, 2009; Gaur & Gaur, 2009; Gujarati, 2004) indicating that multicollinearity was not a problem and thus regression analysis could be employed. Besides the assumptions of normality and multicollinearity, the study also examined the mean scores and with their corresponding standard deviations for the key variables of the study. Finally, post-estimation tests for zero conditional mean, heteroskedasticity and omitted variables were conducted using White's test and scatter plots (See Appendix B). A visual inspection of the scatter plots did not reveal any problems of omitted variable bias, zero conditional mean and heteroskedasticity. Gupta (2000) advanced that once visual examination does not reveal any problems, it is unnecessary to conduct further formal diagnostic tests. However, the White's test was conducted to confirm the absence of heteroskedasticity (Gupta, 2000).

Table 8: Correlation Analysis of study variables

Variables	BS	1BA	MC	SC	CSR	SE
BS	1	0.57	0.19	0.01	0.00	0.06
1BA		1	0.03	0.00	0.17	-0.01
MC			1	0.69	0.64	0.54
SC				1	0.64	0.58
CSR					1	0.68
SE						1

Note: BS = Board Size; IBA = Intensity of Board Activity; MC = Managerial competence; SC = Strategic competence; CSR = Corporate social responsibility; SE = Stakeholder engagement

Source: Survey data, 2014

From Table 7, it was observed that managerial competence recorded the highest score, with a mean of 4.05. Firm's reputation had the next highest mean score of 3.97 out of the total possible score of five, followed by corporate social responsibility with a mean score of 3.88. Access to capital scored the lowest mean value of 0.90. The high mean score recorded by managerial competence implies that managers/owners of SMEs have sufficient managerial competence for running these enterprises. This confirms the findings of Sanda, Sackey and Faltholm (2011) that the SMEs' managers in Ghana have a lot of managerial competencies. While the low mean score for access to capital points out the difficulty in accessing capital among SMEs as found in extant literature.

On the average, each enterprise had three board members and met about twice in a year. This is quite impressive in view of the financial burdens associated with board meetings. Overall, the mean scores indicate that owner/managers of SMEs were concerned with ensuring the proper governance of their businesses.

Board Size and Financial performance

Although, agency theory is the predominant theory used in the research on boards of directors (Johnson, Ellstrand, & Daily, 1996; Zahra & Pearce, 1989), this is the area of resource dependency theory's greatest research influence. Early studies (Pfeffer, 1972) using resource dependency theory to examine boards focus on board size as an indicator of the board's ability to provide critical resources to the firm. Several studies also explore the relationship between board size and firm performance as an indicator of a successful resource dependence strategy.

The regression results from Table 9 showed a positive constant term which is consistent with economic theory. The coefficient of the corporate governance variable board size is also significant and positive, meaning that an increase in board size will lead to an increase in the dependent variable, profit growth.

The R^2 is 0.134 and the adjusted R^2 is 0.126. This means that 12.6 percent of the variation in the dependent variable, profit growth, can be explained by the explanatory variables of board size, age, location and leverage while the remaining 87.4 percent can be explained by variables other than the variables used in the model. Although, the value of the adjusted R^2 is low, the F-statistics confirms that there is a true relationship between the dependent variable (profit growth) and independent variables (board size, age, location and leverage). In the social sciences, low adjusted R^2 in regression equations are not uncommon, especially for cross-sectional analysis. What is probably most important is to validate the results obtained (Dougherty, 1992; Reisinger, 1997; Koutsoyiannis, 2001). The F-statistics is 16.179. This is high and statistically significant at 0.01 level of significance.

As depicted in the conceptual framework, the first hypothesis sought to establish whether a statistically significant relationship exists between board size and financial performance, as measured by profit growth. The results show a t-statistics of 2.080. This confirms that there is a significant positive relationship between board size and financial performance as measured by profit growth. This means that when board size increases by 1 member, financial performance increases by 0.009 Ghana cedis. Therefore, the hypothesis is accepted at 0.05 level of significance. This is in line with the findings of Abor & Bikpe (2007) who also established a significant positive relationship between board size and firm performance. Dalton and Dalton (2005) reasoned that large boards are characterized by board diversity in terms of experience, skills, gender and nationality and can therefore provide a spread of expert advice and opinion that can lead to better financial performance.

While the main argument advanced by agency theory (i.e. monitoring in order to prevent management from indulging in selfish behaviour at the expense of the interest of owners) for the need for board of directors might not be pungent within the SME context, it appears the advisory and counselling roles undertaken by these boards still make boards very relevant for the financial well-being of SMEs. Hence, emphasis should be laid on the skills and other knowledge resources directors can bring to these firms (Short, Keasey, Wright, & Hull, 1999) as the basis of having experienced persons as advisors to complement the efforts of owners/managers.

The positive relationship between board size and financial performance could also be attributed to the ability of these boards to access resources from the external environment for the firms' operations (See Table 10). Daily, McDougall, Covin and Dalton (2002) concluded that greater numbers of directors provide the potential to access external resources for firms. Contrary arguments that large boards lead to less meaningful discussion, since expressing opinions within a large group is generally time consuming and difficult and frequently results in a lack of cohesiveness on the board were not supported in this study (Lipton & Lorch, 1992). It is important to state, however, that in this study, the mean board size was only approximately three.

Table 9: Multiple regression analysis results for Board Size and Profit growth as Financial Performance Proxy

Variables	Estimated Coefficient	Standard errors	t-values	Sig.
Constant term	1.034	0.092	11.242	0.000
Board size	0.009	0.004	2.080	0.038**
Age	-0.002	0.002	-1.581	0.113
Location	-0.026	0.032	-0.798	0.425
Leverage	0.071	0.010	6.833	0.000***
R	0.366			
R^2	0.134			
Adjusted R^2	0.126			
F-statistic	16.179			

Note: a) Predictors: Constant, Board Size, Age of owner/manager, Location of business and Leverage. b) Dependent Variable: Profit growth

***--significant at 0.01 level; **--significant at 0.05 level

Source: Survey data, 2014

Leverage was the only control variable that had a significant positive relationship with financial performance at 1% level of significance. This implies an increase in leverage by 1 Ghana Cedis will result in an increase in financial performance by 0.071 Ghana Cedis. This is consistent with the findings of Marsh (1982). Mash (1982) revealed that based on the pecking order theory firms with high growth will have relatively high debt ratios. Therefore, there is a positive relationship between growth and leverage. Similarly, Ward and Prince (2006) stipulated that a profitable business will experience a higher return on equity as borrowing or debt financing increases, since such financing is able to earn at higher rate than it is paying for its borrowed funds. This is however contrary to the findings of Gleason *et al* (2000). They found a negative and significant relation of leverage level with firm performance measured by the return on assets and profit margin in European countries.

Mediating effect of access to capital on the relationship between board size and financial performance

This section presents results associated with testing for the mediating effect of access to capital on the relationship between board size and financial performance of SMEs as shown in the conceptual framework. It was assumed that directors could use their networks and influence to assist firms to access funds for investments leading to better financial performance. Mediated regression analysis was conducted to examine the efficacy of the formulated hypothesis. The results of the mediated regression analysis are presented in Table 10.

In the first equation, AC was regressed on BS and their relationship was found to be positive and significant and 37 percent of the variance in AC was accounted for solely by BS. In equation two, FP was regressed on BS and their relationship was also found to be positive and significant at 0.001 level of significance. In the final equation, FP was simultaneously regressed on BS and AC. The presence of AC rendered the relationship between FP and BS insignificant.

Table 10: Mediating effect of Access to capital on the Board Size – Financial Performance Nexus

Equations	Criterion variable	Predictor variable	B	t-value	R^2	F-statistic
1	AC	BS	0.37***	8.11	0.14	65.80***
2	FP	BS	0.24***	5.01	0.06	25.09***
3	FP	BS	0.00	0.11	0.40	141.86***
		AC	0.63***	15.625		

Note: N = 423; AC = Access to capital; BS = Board size and FP = Financial performance. Sobel test Z = 7.33, P = 0.00; *** - significant at 0.001 level

Source: Survey data, 2014

Consequently, it is concluded that AC fully mediated the relationship between board size and financial performance. This implies that the hypothesis that access to capital mediated the relationship between board size and financial performance of SMEs is supported. The results of the Sobel's test also confirmed a significant mediation effect. Hence, access to capital explains why board size would have a positive relationship with financial performance.

The results show that the significant relationship between board size and financial performance is largely due to the ease of firms with large board size to access capital. This result underscores the relevance of the networking role of boards in connecting organisations to their external environment in order to access resources (Daily, McDougall, Covin & Dalton, 2002). The resource dependency theory hinges on the long-term survival and success of a firm on its abilities to link the firm with its external environment and views the provision of resources to firms as the main function of boards (Pfeffer & Salancik, 1978).

Table 11: Mediating effect of Firm Reputation on the Board Size – Financial Performance Nexus

Equations	Criterion variable	Predictor variable	B	t-value	R^2	F-statistic
1	FR	BS	0.06	1.2	0.00	1.34
2	FP	BS	0.24***	5.01	0.06	25.09***
3	FP	BS	0.23***	4.90	0.10	21.97***
		FR	0.20**	4.20		

Note: N = 423; FR = Firm reputation; BS = Board size and FP = Financial Performance; Sobel's test Z = 0.98, P = 0.32; *** - significant at 0.001 level; ** - significant at 0.01 level

Source: Survey data, 2014

Mediating effect of firm reputation on the relationship between board size and financial performance

The conceptual framework depicts that firm reputation mediated the relationship between board size and financial performance. This section presents results associated with testing for the mediating effect of firm reputation on the relationship between board size and financial performance of SMEs. The results of the mediated regression analysis are presented in Table 11. Baron and Kenny's (1986) first condition was not met (i.e. the nexus between FR and BS is insignificant). Hence, the hypothesis that firm reputation mediates the relationship between board size and financial performance of SMEs was not supported. The results of the Sobel's test also confirmed an insignificant mediation effect.

Intensity of Board Activity and Financial Performance

The frequency of meetings is considered as a measure of board's effectiveness in carrying out the tasks of monitoring and advising, and therefore influencing firm performance (Arosa et al., 2012). It is assumed that boards that do meet frequently are more active in carrying out their traditional tasks of monitoring and advising, thereby leading to better firm performance (Gabrielsson & Winlund, 2000).

The regression results from Table 12 showed a positive constant term which is consistent with economic theory. The coefficient of the corporate governance variable intensity of board activity is positive but not significant, meaning that by chance an increase in the number of meetings between owner/managers and board of directors/advisors may increase the dependent variable, profit growth.

The R^2 is 0.127 and the adjusted R^2 is 0.119. This means that 11.9 percent of the variation in the dependent variable, profit growth, can be explained by the explanatory variables of intensity of board activity, age, location and leverage while the remaining 88.1 percent can be explained by variables other than the variables used in the model. Although, the value of the adjusted R^2 is low, the F-statistics confirms that there is a true relationship between the dependent variable (profit growth) and independent variables (intensity of board activity, age, location and leverage). In the social sciences, low adjusted R^2 in regression equations are not uncommon, especially for cross-sectional analysis. What is probably most important is to validate the results obtained (Dougherty, 1992; Reisinger, 1997; Koutsoyiannis, 2001). The F-statistics is 15.260. This is high and statistically significant at 0.01 level of significance.

The second hypothesis sought to find out whether a statistically significant relationship exists between intensity of board activity and financial performance, as measured by profit growth. The results show a t-statistics of 1.054; however, this did not confirm that a significant positive relationship exists between intensity of activity and financial performance as measured by profit growth. Therefore, the hypothesis is not accepted. This result is consistent with the findings of Arosa et al (2012).

The reasons put forward to explain the insignificant relationship between intensity of board activity and financial performance so far are that, there is the tendency of a lag effect in that boards respond to poor performance by increasing board activities which in turn influence the following year's performance (Arosa et al., 2012). Secondly, probably directors receive agenda for board meetings quite late and therefore do not adequately prepare for such meetings to make useful contributions (Arosa et al., 2012). Some authors have argued that such meetings normally focus on routine organisational activities since the agenda are normally prepared by the manager (Jensen, 1993).

One can also argue that the expenditure associated with holding such meetings (i.e. rental of venues, payment of allowances, transportation costs, etc) may neutralise any financial benefits associated with having an optimum board size. There is substantial evidence that the inadequacy of financial resources is far pronounced in the SME sector than larger firms in Ghana (Kayanula & Quartey, 2000; Tagoe, Nyarko, & Anuwa-Armah, 2005; Abor & Biekpe, 2007). Therefore, such meetings may be increasing the financial burdens of these SMEs.

Age and leverage had a significant relationship with financial performance. However, while leverage had a positive relationship with financial performance, that of age was negative. This means that an increase in age by 1 year will result in a decrease in financial performance by 0.003 Ghana cedis. With respect to age, the finding is in consonance with that of Coleman (2002), who reported that younger owners/managers are high risk takers than their older counterparts and tend to perform better than older owners/managers. Roberts-Lombard and Chiliya (2012) proposed that the current educational curriculum in Africa has entrepreneurship inculcated in it so it is not surprising for younger owners/managers to perform better than older owners/managers since they have more of the knowledge and skills needed to access finance through their higher educational levels

Table 12: Multiple regression analysis results for Intensity of Board Activity and Profit growth as Financial Performance Proxy

Variables	Estimated Coefficient	Standard errors	t-values	Sig.
Constant term	1.060	0.091	11.624	0.000
Intensity of board activity	0.007	0.007	1.054	0.293
Age	-0.003	0.002	-1.839	0.067*
Location	-0.029	0.033	-0.887	0.376
Leverage	0.074	0.010	7.162	0.000***
R	0.357			
R^2	0.127			
Adjusted R^2	0.119			
F-statistic	15.260			

Note: a) Predictors: Constant, Intensity of board activity, Age of owner/manager, Location of business and Leverage.

b) Dependent Variable: Profit growth

***--significant at 0.01 level; *--significant at 0.1 level

Source: Survey data, 2014

Mediating effect of access to capital on the relationship between intensity of board activity and financial performance

This section presents results associated with testing for the mediating effect of access to capital on the relationship between intensity of board activity and financial performance of SMEs. A mediational analysis was not validated because the nexus between intensity of board activity and financial performance is insignificant (Baron & Kenny, 1986). Therefore, the hypothesis that access to capital mediated the relationship between intensity of board activity and financial performance of SMEs is not supported.

Mediating effect of firm reputation on the relationship between intensity of board activity and financial performance

This section presents results associated with testing for the mediating effect of firm reputation on the relationship between intensity of board activity and financial performance of SMEs. Once again, a mediational analysis was not validated because the nexus between intensity of board activity and financial performance is insignificant (Baron & Kenny, 1986). Therefore, the hypothesis that firm reputation mediated the relationship between intensity of board activity and financial performance of SMEs is not supported.

CHAPTER SIX

ENTREPRENEURIAL COMPETENCE, STAKEHOLDER RELATIONS AND FINANCIAL PERFORMANCE OF SMEs

Introduction

The most important resources in business organizations are largely the intangible resources, such as the competencies, talent, and creative capacities of the workforce (Castells, 2001; Robinson, 2001). Resource-based view studies have acknowledged the particular value of intangible resources, since they are the only kind of resources potentially capable of meeting the resource-based criteria of being valuable, rare, and costly to imitate (Michalisin, Kline, & Smith, 2000).

Peteraf and Barney (2003) advanced that research underpinned by the resource-based view needs to refocus on the dynamics of managerial processes that are central to building and sustaining a competitive advantage. An aspect of such managerial processes is the ability of a manager to deal with stakeholder relation issues effectively. This chapter presents empirical results and discussions on how entrepreneurial competencies and stakeholder relations influence the financial performance of SMEs. It also examines how access to capital and the reputation of a firm mediate such relationships.

Managerial Competence and Financial Performance

The conceptual framework establishes a relationship between managerial competence and financial performance. This section addresses this relationship and how access to capital and firm reputation mediate it. The regression results from Table 13 showed a positive constant term which is consistent with economic theory. The coefficient of the corporate governance variable managerial competence is also significant and positive, meaning that SMEs managed by executives with higher managerial competence have a better chance of improving their financial performance.

The R^2 is 0.140 and the adjusted R^2 is 0.132. This means that 13.2 percent of the variation in the dependent variable, profit growth, can be explained by the explanatory variables of managerial competence, age, location and leverage while the remaining 86.8 percent can be explained by variables other than the variables used in the model. Although, the value of the adjusted R^2 is low, the F-statistics confirms that there is a true relationship between the dependent variable (profit growth) and independent variables (managerial competence, age, location and leverage). In the social sciences, low adjusted R^2 in regression equations are not uncommon, especially for cross-sectional analysis. What is probably most important is to validate the results obtained (Dougherty, 1992; Reisinger, 1997; Koutsoyiannis, 2001). The F-statistics is 17.016. This is high and statistically significant at 0.01 levels.

The third hypothesis sought to determine if a statistically significant relationship exists between managerial competence and financial performance, as measured by profit growth. The results show a t-statistics of 2.694. This confirms that there is a significant positive relationship between managerial competence and financial performance as measured by profit growth. Therefore, the hypothesis is accepted at 0.01 level of significance. This means that when managerial competence increases by 1 level, financial performance will increase by 0.086 Ghana Cedis.

The outcome of the regression analyses implies that SMEs managed by executives with higher managerial competence have a better chance of improving their financial performance. This is consistent with the findings of Baum (1994), Nakiyingo (2010) and Kumar and Shahid (2014). The import is that competence in operational and tactical activities such as quality decision making, risk management, short-term planning, training, leading and motivating staff, among others, have a positive impact on the financial performance of SMEs. Operational issues tend to focus largely on the internal operations of a firm and these enhance control and waste reduction leading to better financial performance.

For instance, Anderson (2008) concluded that risk management reduces a firm's average capital expenditure and contract costs as it eases access to resources. In a similar vein, Mbogo (2011) advanced that managerial capabilities tend to have positive influence on the quality of decision making and this is critical for the success of SMEs.

Nakiyingo (2010) also found a positive and significant relationship between managerial competencies, credit accessibility and business success. More recently, Kumar and Shahid (2014) have confirmed a statistically significant association between financial performance and general management skills. On the contrary, Sanda, Sackey and Faltholm (2011) finding that the managerial competence of SME executives in Ghana does not translate into financial performance was not supported.

Table 13: Multiple Regression Analysis results for Managerial Competence and profit growth as Financial Performance Proxy

Variables	Estimated Coefficient	Standard errors	t-values	Sig.
Constant term	0.780	0.141	5.524	0.000
Managerial competence	0.086	0.032	2.694	0.007***
Age	-0.004	0.002	-2.372	0.018**
Location	-0.031	0.032	-0.045	0.329
Leverage	0.069	0.010	6.587	0.000***
R	0.374			
R^2	0.140			
Adjusted R^2	0.132			
F-statistics	17.016			

Note: a) Predictors: Constant, Managerial competence, Age of owner/manager, Location of business and Leverage.

b) Dependent Variable: Profit growth

***--significant at 0.01 level; **--significant at 0.05 level

Source: Survey data, 2014

Mediating effect of access to capital on the relationship between managerial competence and financial performance

This section presents results associated with testing for the mediating effect of access to capital on the relationship between managerial competence and financial performance of SMEs. The results of the mediated regression analysis are presented in Table 14. In the first equation, AC was regressed on MC and their relationship was found to be insignificant.

In view of the fact that the result in the first equation was insignificant, it is concluded that AC was not an intervening variable for the link between MC and financial performance. This implies that MC on its own has a significant positive relationship with financial performance and does not necessarily need any relationship with AC to make this possible. Therefore, the hypothesis that access to capital mediated the relationship between managerial competence and financial performance is not supported. The results of the Sobel's test did not also show a significant mediation effect.

Many studies have professed that the competencies of individuals running business organizations are quality signals that assist stakeholders make resource allocation decisions for investing in these firms (Podolny, 1993, Shane & Cable, 2002). Therefore, managerial competencies are valuable in acquiring resources for a firm (Higgins & Gulati 2006; Stuart et al. 1999). This finding is not supported in this study.

Table 14: Mediating effect of Access to capital on the Managerial Competence – Financial Performance Nexus

Equations	Criterion variable	Predictor variable	B	t-value	R^2	F-statistic
1	AC	MC	-0.01	-0.24	0.00	0.06
2	FP	MC	0.16**	3.22	0.02	10.35**
3	FP	MC	0.16***	4.41	0.43	158.11***
		AC	0.64***	17.28		

Note: N = 423, AC = Access to capital; MC = Managerial competence; FP = Financial Performance. Sobel's test Z = -0.24, P = .81; *** - significant at 0.001 level; ** -significant at 0.01 level

Source: Survey data, 2014

Mediating effect of firm reputation on the relationship between managerial competence and financial performance

This section presents results associated with testing for the mediating effect of firm reputation on the relationship between managerial competence and financial performance of SMEs. The results of the mediated regression analysis are presented in Table 15. In the first equation, FR was regressed on MC and their relationship was found to be positive and significant and 64 percent of the variance in FR was accounted for solely by MC. In equation two, FP was regressed on MC and their relationship was also found to be positive and significant at 0.001 level of significance.

In the final equation, FP was simultaneously regressed on MC and FR. Given that the relationship between FP and MC was insignificant after controlling for FR, implies that FR fully mediated the nexus between MC and FP. Therefore, the hypothesis that firm reputation mediated the relationship between managerial competence and financial performance is supported. The results of the Sobel's test also confirmed a significant mediation effect.

Table 15: Mediating effect of Firm Reputation on the Managerial Competence – Financial Performance Nexus

Equations	Criterion variable	Predictor variable	B	t-value	R^2	F-statistic
1	FR	MC	0.64***	17.28	0.42	298.55***
2	FP	MC	0.16**	3.22	0.02	10.35**
3	FP	MC	0.03	0.55	0.04	9.77***
		FR	0.19**	3.00		

Note: *N* = 423; FR = Firm reputation; MC = Managerial competence; FP = Financial Performance. Sobel's test *Z* = 4.34, *P* = .00; *** - significant at 0.001 level; ** -significant at 0.01 level Source:

Survey data, 2014

The import of this finding is that, firms with competent managerial team turn to build better reputation leading to improved financial performance. Managerial competence can serve as a promotional tool for enhancing the image of a firm. More significantly, among SMEs where there is no separation of ownership from control and most owners are actively involved in the delivery of services, the reputation of these businesses is somewhat connected to the level of competence of the owners (Carson et al., 1995; Stokes, 2002; Carson et al., 2004; Shaw, 2006).

Strategic Competence and Financial Performance

This section, based on the conceptual framework, examines the relationship between strategic competence and the financial performance of SMEs and how access to capital and firm reputation mediate this nexus. The regression results from Table 16 showed a positive constant term which is consistent with economic theory. The coefficient of the corporate governance variable strategic competence is also significant and positive. This implies that SMEs managed by executives with higher strategic competence have a better chance of improving their financial performance.

The R^2 is 0.154 and the adjusted R^2 is 0.146. This means that 14.6 percent of the variation in the dependent variable, profit growth, can be explained by the explanatory variables of strategic competence, age, location and leverage while the remaining 85.4 percent can be explained by variables other than the variables used in the model. Although, the value of the adjusted R^2 is low, the F-statistics confirms that there is a true relationship between the dependent variable (profit growth) and independent variables (strategic competence, age, location and leverage). In the social sciences, low adjusted R^2 in regression equations are not uncommon, especially for cross-sectional analysis. What is probably most important is to validate the results obtained (Dougherty, 1992; Reisinger, 1997; Koutsoyiannis, 2001). The F-statistics is 19.034. This is high and statistically significant at 0.01 level of significance.

The fourth hypothesis sought to determine if a statistically significant relationship exists between strategic competence and financial performance, as measured by profit growth. The results show a t-statistics of 3.784. This confirms that there is a significant positive relationship between strategic competence and financial performance as measured by profit growth. Therefore, the hypothesis is accepted at 0.01 level of significance. This means that when strategic competence increases by 1 level this will result in an increase in financial performance by 0.096 Ghana Cedis.

The outcome of the regression analyses implies that SMEs managed by executives with higher strategic competence have a better chance of improving their financial performance. This is in line with some previous studies that have shown that firms that pay attention to strategic management issues are more likely to be those that achieve higher sales growth, higher returns on assets, higher profit and higher employee growth (Berman, Gordon, & Sussman, 1997; Bracker, Keats, & Pearson, 1988; Carland & Carland, 2003; Gibson & Casser, 2005).

It is suggested that managers that strategically plan are more likely to be those that are innovative (Beaver & Prince, 2002; Gibbons & O'Connor, 2005; Stewart, 2002; Upton, Teal, & Felan, 2001) and being innovative can result in better financial performance because it leads to adapting to better business procedures, technology and methods to fit changing trends in an industry.

Table 16: Multiple Regression Analysis results for Strategic Competence and Profit growth as Financial Performance Proxy

Variables	Estimated Coefficient	Standard errors	t-values	Sig.
Constant term	0.769	0.120	6.408	0.000
Strategic competence	0.096	0.025	3.784	0.000***
Age	-0.004	0.002	-2.274	0.023**
Location	-0.036	0.032	-1.131	0.259
Leverage	0.066	0.010	6.307	0.000***
R	0.393			
R^2	0.154			
Adjusted R^2	0.146			
F-statistic	19.034			

Note: a) Predictors: Constant, Strategic competence, Age of owner/manager, Location of business and Leverage. b) Dependent Variable: Profit growth

***--significant at 0.01 level; **--significant at 0.05 level

Source: Survey data, 2014

Closely related to the above, the other reason why strategic competence may lead to better financial performance is that it assists a manager to make changes in crisis to reposition the firm to respond to changes in its environment or to find suitable market niches and these should have positive effects on the long-term profitability of a firm (Man, 2011). Finally, strategic competencies enables an entrepreneur to take advantage of the competitive scope and the organisational capabilities of a firm leading to better long-term performance of the firm (Man, 2011).

Mediating effect of access to capital on the relationship between strategic competence and financial performance

This section presents results associated with testing for the mediating effect of access to capital on the relationship between strategic competence and financial performance of SMEs.The hypothesis sought to ascertain the mediating effect of access to capital on the link between strategic competence and financial performance. The results of the mediated regression analysis are presented in Table 17.

In the first equation, AC was regressed on SC and their relationship was found to be significant at 0.05 level of significance. Also, in equation two, FP was regressed on SC and their relationship was again found to be significant. Finally, in equation three, FP was regressed on both SC and AC and both relationships were significant. However, the beta weight of SC in equation three is lesser than that of equation two, therefore, it is concluded that AC partially mediate the link between SC and FP.

Hence, the hypothesis that access to capital mediated the relationship between strategic competence and financial performance of SMEs is supported. The results of the Sobel's test also showed a significant mediation effect. The results show that access to capital accounts for some, but not all, of the relationship between strategic competence and financial performance.

Table 17: Mediating effect of Access to capital on the Strategic Competence – Financial Performance Nexus

Equations	Criterion variable	Predictor variable	B	t-value	R^2	F-statistic
1	AC	SC	0.11*	2.27	0.01	5.15*
2	FP	SC	0.24***	4.98	0.06	24.78***
3	FP	SC	0.17***	4.54	0.43	159.10***
		AC	0.62***	16.65		

Note: N = 423; AC = Access to capital; SC = Strategic competence; FP = Financial Performance. Sobel's test Z = 2.25, P = .01; *** - significant at 0.001 level; * - significant at 0.5 level

Source: Survey data, 2014

This suggests that, sometimes firms managed by strategically competent executives enhance their financial performance not only due to the business acumen and strategies of such executives but also because they are able to attract external financing form investors. The entrepreneur's competencies provide information about his or her ability to implement the venture; therefore, investors should be more likely to fund opportunities by entrepreneurs with such positive attributes (Shane and Cable 2002).

Mediating effect of firm reputation on the relationship between strategic competence and financial performance

This section presents results associated with testing for the mediating effect of firm reputation on the relationship between strategic competence and financial performance of SMEs. The hypothesis sought to ascertain the mediating effect of firm reputation on the link between strategic competence and financial performance. The results of the mediated regression analysis are presented in Table 18.

In the first equation, FR was regressed on SC and their relationship was found to be positive and significant and 55% of the variance in FR was accounted for solely by SC. In equation two, FP was regressed on SC and their relationship was also found to be positive and significant at 0.01 level of significance. In the final equation, FP was simultaneously regressed on both SC and FR. These relationships were both found to be significant.

Consequently, since the beta coefficients of the independent variable in equation 3 is less than that of equation 2 as indicated in the fourth condition outlined by Baron and Kenny (1986), it is concluded that FR partially mediated the link between SC and FP. This implies that the hypothesis that firm reputation mediated the relationship between strategic competence and financial performance is supported. The results of the Sobel's test also confirmed a significant mediation effect.

The results show that firm reputation account for some, but not all, of the relationship between strategic competence and financial performance. Therefore, the ability of firms managed by executives with the requisite strategic competence to improve their financial performance is partly due to the enhanced image such competent executives bring to their firms.

This implies that the competencies of entrepreneurs do impact on the reputation of their respective organizations. More significantly, in an environment where firm ownership is not separated from control and most owners are actively involved in the delivery of services, the reputation of SMEs would be largely dictated by the competencies of the owner (Carson et al., 1995; Stokes, 2002; Carson et al., 2004; Shaw, 2006).

Table 18: Mediating effect of Firm Reputation on the Strategic Competence – Financial Performance Nexus

Equations	Criterion variable	Predictor variable	B	t-value	R^2	F-statistic
1	FR	SC	0.55***	13.43	0.30	180.36***
2	FP	SC	0.24***	4.98	0.24	24.78***
3	FP	SC	0.17**	3.07	0.07	14.54***
		FR	0.11*	2.03		

Note: *N* = 423; FR = Firm reputation; SC = Strategic competence; FP = Financial Performance. Sobel's test *Z* = 4.21, *P* = .00; *** - significant at 0.001 level; ** - significant at 0.01 level; * - significant at 0.5 level

Source: Survey data, 2014

Stakeholder Relations and Financial Performance

Recent corporate scandals have attracted public attention and highlighted once more the importance of addressing stakeholder relations. Research on stakeholder relations is quite scant in developing countries (Burton & Goldby, 2009). Hence, based on the conceptual framework, this section presents empirical results and discussions on the effects of corporate social responsibility and stakeholder engagement on the financial performance of SMEs. It also examines how access to capital and the reputation of a firm mediate such a relationship.

Corporate Social Responsibility and Financial Performance

This section addresses the relationship between CSR and the financial performance of SMEs and how access to capital and a firm's reputation may mediate this nexus. The regression results from Table 19 showed a positive constant term which is consistent with economic theory. The coefficient of the corporate governance variable CSR is also significant and positive.

The R^2 is 0.146 and the adjusted R^2 is 0.138. This means that 13.8 percent of the variation in the dependent variable, profit growth, can be explained by the explanatory variables of CSR, age, location and leverage while the remaining 86.2 percent can be explained by variables other than the variables used in the model. Although, the value of the adjusted R^2 is low, the F-statistics confirms that there is a true relationship between the dependent variable (profit growth) and independent variables (CSR, age, location and leverage). In the social sciences, low adjusted R^2 in regression equations are not uncommon, especially for cross-sectional analysis. What is probably most important is to validate the results obtained (Dougherty, 1992; Reisinger, 1997; Koutsoyiannis, 2001). The F-statistics is 17.834. This is high and statistically significant at 0.01 level of significance.

The fifth hypothesis sought to establish whether a statistically significant relationship exists between CSR and financial performance, as measured by profit growth. The results show a t-statistics of 3.181. This confirms that there is a significant positive relationship between strategic competence and financial performance as measured by profit growth. An increase in CSR by 1 activity will result in an increase in financial performance by 0.09 Ghana Cedis. Therefore, the hypothesis is accepted at 0.01 level of significance. Control variables, age and leverage, had a significant relationship with financial performance.

The outcome of the regression analyses implies that an increase in CSR activities is associated with a higher financial performance. Hence, research findings based on neoclassical economics that argued that CSR unnecessarily raises a firm's costs, putting the firm in a position of competitive disadvantage vis-à-vis its competitors (Friedman, 1970; Aupperle et al., 1985; McWilliams & Siegel, 1997; Jensen, 2002) was not confirmed.

Rather, the findings are in line with previous studies that have shown that firms that pay attention to CSR are more likely to improve their financial performance (Cochran & Wood, 1997; Turban & Greening, 1997; Fombrun, 1996). Numerous reasons have been given for the positive effect of CSR on firm's financial performance. First, CSR can have a positive impact by providing better

Table 19: Multiple Regression Analysis results for CSR and Profit growth as Financial Performance Proxy

Variables	Estimated Coefficient	Standard errors	t-values	Sig.
Constant Term	0.776	0.129	5.995	0.000
CSR	0.090	0.028	3.181	0.002***
Age	-0.003	0.002	-2.229	0.026**
Location	-0.032	0.032	-1.010	0.313
Leverage	0.067	0.010	6.425	0.000***
R	0.382			
R^2	0.146			
Adjusted R^2	0.138			
F-statistic	17.834			

Note: a) Predictors: Constant, Corporate social responsibility, Age of owner/manager, Location of business and Leverage.

b) Dependent Variable: Profit growth

***--significant at 0.01 level; **--significant at 0.05 level

Source: Survey data, 2014

access to valuable resources (Cochran & Wood, 1984), attracting and retaining higher quality employees (Turban & Greening, 1997; Greening and Turban, 2000), allowing for better marketing of products and services (Moskowitz, 1972;

Fombrun, 1996), creating unforeseen opportunities (Fombrun et al., 2000), and contributing towards gaining social legitimacy (Hawn et al., 2011).

Secondly, CSR may function in similar ways as advertising does, increasing demand for products and services and/or reducing consumer price sensitivity (Dorfman & Steiner, 1954; Navarro, 1988; Sen & Bhattacharya, 2001; Milgrom & Roberts, 1986) and even enabling firms to develop intangible assets (Gardberg & Fomburn, 2006; Hull & Rothernberg, 2008) such as goodwill.

Finally, from a stakeholder theory perspective (Freeman et al., 2010), CSR includes managing multiple stakeholder ties concurrently. Scholars have argued this can mitigate the likelihood of negative regulatory, legislative or fiscal action (Freeman, 1984; Berman et al., 1999; Hillman & Keim, 2001) resulting in better financial performance. Companies that adopt the CSR principles are more transparent and have less risk of bribery and corruption. In addition, they run less risk of having to recall defective product lines and pay heavy fines for excessive polluting. They also have less risk of negative social events, which could damage their reputation and costs millions in information and advertising campaigns or litigation (Waddock & Graves, 1997).

Mediating effect of access to capital on the relationship between corporate social responsibility and financial performance

This section presents results associated with testing for the mediating effect of access to capital on the relationship between CSR and financial performance of SMEs.The hypothesis sought to ascertain the mediating effect of access to capital on the link between CSR and financial performance. The results of the mediated regression analysis are presented in Table 20.

In the first equation, AC was regressed on CSR and their relationship was found to be significant at 0.01 level of significance. Also, in equation two, FP was regressed on CSR and their relationship was also found to be significant at 0.001 level of significance. Finally, in equation three, FP was regressed on both CSR and AC and both relationships were significant.

Table 20: Mediating effect of Access to Capital on the Corporate Social Responsibility – Financial Performance Nexus

Equations	Criterion variable	Predictor variable	B	t-value	R^2	F-statistic
1	AC	CSR	0.14**	2.80	0.02	7.81**
2	FP	CSR	0.24***	4.95	0.06	24.52***
3	FP	CSR	0.15**	4.07	0.43	155.70***
		AC	0.61***	16.47		

Note: *N* = 423; AC = Access to Capital; CSR = Corporate Social Responsibility; FP = Financial Performance. Sobel's test *Z* = 2.95, *P* = .00; *** -significant at 0.001 level; ** -significant at 0.01 level

Source: Survey data, 2014

However, the beta weight of CSR in equation three is lesser than that of equation two, therefore, it is concluded that AC partially mediate the link between CSR and FP. Hence, the hypothesis that access to capital mediated the relationship between corporate social responsibility and financial performance is supported. The results of the Sobel's test also showed a significant mediation effect. The results show that corporate social responsibility has a significant relationship with financial performance beyond the influence of access to capital. This suggests that firms that pay attention to their social responsibility do not always have to access additional capital to improve performance, although such access could also account for better performance.

Mediating effect of firm reputation on the relationship between corporate social responsibility and financial performance

This section presents results associated with testing for the mediating effect of firm reputation on the relationship between CSR and financial performance of SMEs.The hypothesis sought to ascertain the mediating effect of firm reputation on the link between CSR and financial performance. The results of the mediated regression analysis are presented in Table 21.

In the first equation, FR was regressed on CSR and their relationship was found to be positive and significant and 65% of the variance in FR was accounted for solely by CSR. In equation two, FP was regressed on CSR and their relationship was also found to be positive and significant at .001 level of significance. In the final equation, FP was simultaneously regressed on both CSR and FR. Again, the relationship between CSR and FP was found to be significant.

Consequently, since the beta coefficients of the CSR in equation 3 is less than that of equation 2 as indicated in the fourth condition outlined by Baron and

Kenny (1986), it is concluded that FR partially mediated the link between CSR and FP. This implies that the hypothesis that firm reputation mediated the relationship between corporate social responsibility and financial performance of SMEs is supported. The results of the Sobel's test also confirmed a significant mediation effect. The results indicate that firms that actively embark on corporate social responsibility could improve their financial performance, although, part of this performance may be due to the influence of firm reputation.

Table 21: Mediating effect of Firm Reputation on the Corporate Social Responsibility – Financial Performance Nexus

Equations	Criterion variable	Predictor variable	B	t-value	R^2	F-statistic
1	FR	CSR	0.67***	18.42	0.45	339.31***
2	FP	CSR	0.24***	4.95	0.06	24.52***
3	FP	CSR	0.17**	2.70	0.06	13.41***
		FR	0.10	1.49		

Note: N = 423; FR = Firm reputation; CSR = Corporate Social Responsibility; FP = Financial performance. Sobel's test Z = 4.32, P = .00; *** -significant at 0.001 level; ** - significant at 0.01 level

Source: Survey data, 2014

Stakeholder Engagement and Financial Performance

From the perspective of stakeholder theory, maximization of the financial interest of shareholders of businesses is no longer viewed as the main concept of a firm. Rather, it goes much beyond and focuses more on ensuring sustainable business. The motives of business enterprises should also be towards the benefit of the employees, consumers, creditors and society at large (Dube et al., 2011). This section as hypothesized from the conceptual framework, examines the relationship between stakeholder engagement and the financial performance of SMEs and how access to capital and a firm's reputation may mediate this nexus. The sixth hypothesis postulated that stakeholder engagement is significantly related to the financial performance of SMEs.

Arguments exist that support the view that firms with solid financial performance have more resources available to invest in social performance domains, such as employee relations, environmental concerns, or community relations. Financially strong companies can afford to invest in ways that have a more long-term strategic impact, such as providing services for the community and their employees. Those allocations may be strategically linked to a better public image and improved relationships with the community in addition to an improved ability to attract more skilled employees. On the other hand, companies with financial problems usually allocate their resources in projects with a shorter horizon. This theory is known as slack resources theory (Waddock & Graves, 1997).

Other arguments propose that financial performance also depends on good stakeholder engagement. According to Waddock and Graves (1997), meeting stakeholder expectations before they become problematic indicates a proactive attention to issues that otherwise might cause problems or litigation in the future. Furthermore, socially responsible companies have an enhanced brand image and a positive reputation among consumers; they also have the ability to attract more accomplished employees and business partners.

The two different explanations of this relationship depend on its causality. This study did not explore the direction of the causal connections. Nevertheless, the regression analysis as shown in Table 22 revealed a significant positive relationship between stakeholder engagement and the financial performance at 0.01 level of significance. An increase in stakeholder engagement by 1 activity will result in an increase in financial performance by 0.079 Ghana Cedis. Hence, the hypothesis that stakeholder engagement had a significant relationship with financial performance was supported.

The outcome of the regression analyses implies that firms that actively engage their stakeholders are likely to perform better financially than those who do not. This is consistent with other empirical studies that have demonstrated a strong positive correlation between stakeholder relationships and firm's financial performance (Collins and Porras, 1995; Waddock & Graves; 1997, Berman et al, 1999; Roman et al, 1999; Svendsen, Boutlier, Abbot & Wheeler, 2002).

Three reasons have been espoused to explain why stakeholder engagement creates competitive advantage and subsequently improved financial performance of a firm (Svendsen, Boutlier, Abbot & Wheeler, 2002). First, stakeholder engagement has the ability to reduce risk since scholars have argued from stakeholder theory perspective that managing multiple stakeholder ties concurrently can mitigate the likelihood of negative regulatory, legislative or fiscal action (Freeman, 1984; Berman et al., 1999; Hillman & Keim, 2001). Stakeholder engagement is arguably the ideal mechanism for identifying and managing the diverse interests of multiple stakeholders.

Secondly, it increases the ability of a firm to access information and resources because stakeholders are the repository. Suppliers can determine the quality and quantity of raw materials available for production of goods and services. Customers give clues as to the type of goods and services a firm must produce and their decision to buy or otherwise have a direct effect on the financial resources of a firm. The role of the community, creditors and investors with respect to assisting firms' access information and resources cannot be overemphasize. Finally, stakeholder engagement improves firm's reputation and innovation and these clearly do lead to better financial performance.

Table 22: Multiple Regression Analysis results for Stakeholder Engagement and Profit Growth as Financial Performance Proxy

Variables	Estimated Coefficient	Standard errors	t-values	Sig.
Constant term	0.813	0.121	6.733	0.000
Stakeholder engagement	0.079	0.024	3.215	0.001***
Age	-0.003	0.002	-2.205	0.028**
Location	-0.024	0.032	-0.731	0.465
Leverage	0.067	0.010	6.396	0.000
R	0.382			
R^2	0.146			
Adjusted R^2	0.138			
F-statistics	17.896			

Note: a) Predictors: Constant, Stakeholder engagement, Age of owner/manager, Location of business and Leverage.

b) Dependent Variable: Profit growth

***--significant at 0.001 level; **--significant at 0.05 level

Source: Survey data, 2014

Mediating effect of access to capital on the relationship between stakeholder engagement and financial performance

This section presents results associated with testing for the mediating effect of access to capital on the relationship between stakeholder engagement and financial performance of SMEs.The hypothesis sought to ascertain the mediating effect of access to capital on the link between stakeholder engagement and financial performance of SMEs. The results of the mediated regression analysis are presented in Table 23.

In the first equation, AC was regressed on SE and their relationship was found to be significant at 0.01 level of significance. Also, in equation two, FP was regressed on SE and their relationship was also found to be significant. Finally, in equation three, FP was regressed on both SE and AC and both relationships were significant. However, the beta weight of SE in equation three is lesser than that of equation two, therefore, it is concluded that AC partially mediate the link between SE and FP.

Hence, the hypothesis that access to capital mediated the relationship between stakeholder engagement and financial performance of SMEs is supported. The results of the Sobel's test also confirmed a significant mediation effect. The results imply that stakeholder engagement has a significant relationship with financial performance beyond the influence of access to capital. This suggests that firms that continually engage their stakeholders in their business can improve their financial performance, although, part of such achievement may be accounted for by access to capital.

Table 23: Mediating effect of Access to Capital on the Stakeholder Engagement – Financial Performance Nexus

Equations	Criterion variable	Predictor variable	B	t-value	R^2	F-statistic
1	AC	SE	0.16**	3.27	0.03	10.69**
2	FP	SE	0.26***	5.42	0.07	29.35***
3	FP	SE	0.16***	4.26	0.43	157.08***
		AC	0.61***	16.32		

Note. *N* = 423; AC = Access to capital; SE = Stakeholder Engagement; FP = Financial Performance. Sobel's test *Z* = 3.12, *P* = .00; *** - significant at 0.001 level; ** -significant at 0.01 level

Source: Survey data, 2014

Mediating effect of firm reputation on the relationship between stakeholder engagement and financial performance

This section presents results associated with testing for the mediating effect of firm reputation on the relationship between stakeholder engagement and financial performance of SMEs.The hypothesis sought to ascertain the mediating effect of firm reputation on the link between stakeholder engagement and financial performance of SMEs. The results of the mediated regression analysis are presented in Table 24.

In the first equation, FR was regressed on SE and their relationship was found to be positive and significant and 64% of the variance in FR was accounted for solely by SE. In equation two, FP was regressed on SE and their relationship was also found to be positive and significant at .001 level of significance.

Table 24: Mediating effect of Firm Reputation on the Stakeholder Engagement – Financial Performance Nexus

Equations	Criterion variable	Predictor variable	B	t-value	R^2	F-statistic
1	FR	SE	0.64***	16.93	0.41	286.63***
2	FP	SE	0.26***	5.42	0.07	29.35***
3	FP	SE	0.21**	3.36	0.05	15.52***
		FR	0.08	1.29		

Note: *N* = 423, FR = Firm reputation; SE = Stakeholder Engagement; FP = Financial Performance. Sobel's test *Z* = 4.34, *P* = .00; *** - significant at 0.001 level; ** -significant at 0.01 level

Source: Survey data, 2014

In the final equation, FP was simultaneously regressed on both SE and FR. Again, the relationship between SE and FP was found to be significant. Consequently, since the beta coefficients of the SE in equation 3 is less than that of equation 2 as indicated in the fourth condition outlined by Baron and Kenny (1986), it is concluded that FR partially mediated the link between SE and FP. This implies that the hypothesis that firm reputation mediated the relationship between stakeholder engagement and financial performance of SMEs is supported. The results of the Sobel's test also confirmed a significant mediation effect. The results indicate that firms that actively engage stakeholders could improve their financial performance, although, some of such gains may be due to the mediating influence of firm's reputation.

CHAPTER SEVEN

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the summary, conclusions and recommendations of the study as well as the contribution to knowledge and areas for future research. The summary comprises what the study set out to do, the methodology used and the key findings. The conclusions are derived from the key findings while the recommendations are based on the findings and the conclusions.

Summary

This study sought to examine the effects of corporate governance on the financial performance of SMEs in the Accra Metropolis. To achieve this general objective, nine specific objectives were formulated. This study was guided largely by the positivist research philosophy. Data on board size, intensity of board activity, managerial competencies, strategic competencies, corporate social responsibility, stakeholder engagement and financial performance of SMEs were collected in the Accra Metropolis.

Simple random sampling technique was used to select the sample from each of the eleven sub-metropolises in which a total of 500 owners/managers of SMEs were surveyed using a questionnaire. Primary and secondary data sources were used for this study. Multiple regression analysis was used to test the hypotheses and to meet the objectives of the study. The study also conducted a mediation analysis using Baron and Kenny's (1986) approach to establish the mediating effects of access to capital and firm reputation on the nexus between corporate governance indicators and financial performance.

The key findings as they related to the specific objectives of the study have been summarised as follows:

1. There was a significant positive relationship between board size and the financial performance of SMEs in the Accra Metropolis. However, while access to capital fully mediated this relationship, firm reputation did not mediate this relationship.
2. There was no association between intensity of board activity and financial performance of SMEs in the Accra Metropolis. Hence, both access to finance and firm reputation did not have any mediational effect.
3. There was a significant positive relationship between managerial competence and financial performance of SMEs. However, while firm reputation fully mediated this relationship, access to capital did not mediate this relationship.
4. There was a significant positive relationship between strategic competence and financial performance of SMEs. Both access to finance and firm reputation partially mediated this relationship.
5. The relationship between corporate social responsibility and financial performance of SMEs was positive and significant. Both access to finance and firm reputation partially mediated this relationship.

6. The relationship between stakeholder engagement and financial performance of SMEs was positive and significant. Both access to finance and firm reputation partially mediated this relationship.

Conclusions

A growing interest in the factors associated with the financial performance of SMEs has long been recognised. The findings indicate that individual corporate governance have a positive relationship with financial performance. In the first place, it came out from the study that board size had a significant positive association with financial performance of SMEs. The findings support the belief that large board size turn to be diverse in terms of experience, skills, gender and nationality and hence, can provide a spread of expert advice and opinion that can lead to better financial performance. Beside this, the mediational analysis results confirm the prediction that boards create linkages between firms and their environment where financial resources can be accessed.

Although, intense board activities had a positive relationship with financial performance, it did not prove very beneficial to SMEs. The costs associated with holding such frequent meetings nullified any potential benefits that may accrue from such meetings. Because intensity of board activity did not have a significant relationship with financial performance, the study concludes that access to capital and firm reputation do not mediate this relationship.

There were also positive and significant relationships between entrepreneurial competencies and financial performance of SMEs. The results implied that competencies in both operational and strategic issues have a positive influence on financial performance. Some the concepts owner-managers of SMEs need to pay attention to include effective delegation, co-ordination, risk management, regulatory compliance, motivation, planning (examples of managerial competencies), establishing longer term directions for the firm, setting realistic goals, having a personal vision for the firm, making strategic changes responsively and flexibly, having contingency and flexible plans (examples of strategic competencies).

Again, meeting stakeholder relations through both corporate social responsibility and stakeholders' engagement had a positive and significant relationship with the financial performance of SMEs. It can be deduced from the mediational analyses that these positive effects were partly due to their ability to enhance the image of firms and also provide easier access to valuable resources. Managers must resist the temptation of viewing CSR and other stakeholder activities as a waste of organizational resources because they can assist firms access valuable resources (Cochran & Wood, 1984), attracting and retaining higher quality employees (Greening and Turban, 2000), allow for better marketing of products and services (Moskowitz, 1972; Fombrun, 1996). In addition, stakeholder relations can mitigate the likelihood of negative regulatory, legislative or fiscal action (Freeman, 1984; Berman et al., 1999; Hillman & Keim, 2001) resulting in better financial performance.

Recommendations

Based on the findings and conclusions, the following recommendations are made:

1. Owners of SMEs should learn to move away from always seeking to own and control the affairs of these enterprises and start involving others with the necessary expertise through partnerships or through the creation of active and sizeable boards.
2. SME managers need to be wary of the frequency and the attendant cost associated with meetings with directors/advisors. They should devise inexpensive and informal meetings with board members in instances where the issues to be addressed are less critical to reduce the financial burden on these firms. Where there is the need for official meetings, managers should pay attention to the content of the agenda for the meeting to ensure that they focus on more strategic and front burner management issues than on routine operational issues.
3. Owner-managers of SMEs should improve their stakeholder relations since this turn to boost the reputation of firms and also ease access to external sources of financing.
4. Owner-managers of SMEs should utilize other sources of financing business operations such as factoring, equity capital or supply chain financing to ease the challenge of access to capital instead of the seeking for the usual business loans from banks and other financial institutions.

These sources of financing do not normally have the strict regulatory and collateral demands associated with traditional mode of financing.

5. SMEs owner/managers should invest in improving their entrepreneurial competencies; developing creative and appealing designs and effectively marketing their product offerings to bolster their image.

Contribution to knowledge

The study's contributions to knowledge include:

1. This study develops a model that links corporate governance indicators to the financial performance of SMEs. It integrates various views on the direct effect of board structure on financial performance of SMEs, the direct effect of entrepreneurial competencies on the financial performance of SMEs, the direct effect of stakeholders' expectations on the financial performance of SMEs as well as the indirect effect corporate governance on the financial performance of SMEs through access to finance and firm reputation.
2. The study builds on the knowledge base that sees the difficulty of accessing finance and subsequent poor financial performance to be the result of poor governance (Abor & Bikpe, 2007).
3. A methodological contribution to this study is the identification and measurement of corporate governance indicators suitable to the nature of SMEs in Ghana. A variety of measures meant for large firms have been used to represent corporate governance in most SMEs studies. This study

adds to a growing body of knowledge that explores alternative measures of corporate governance among SMEs. The governance indicators adopted in this research took into account the peculiar characteristics of SMEs in a transitional economy context.

4. Research into the relationship between corporate governance and financial performance of SMEs usually employs multiple regression analysis to evaluate the direct relationship between these variables. None have sought to examine the possible mediational effect of variables such as access to capital and firm reputation. This study, however, breaks new ground by presenting a major attempt at understanding the intervening role of these variables.

Limitations of the study

This research had to deal with some limitations. Firstly, data were collected exclusively in the Accra Metropolis of Ghana, therefore limiting the possibility of generalizing the findings. Secondly, the study relied on subjective data since objective data on corporate governance and financial performance among SMEs were non-existent. Thirdly, qualitative research approaches such as interviews and focus group discussions could have provided an in-depth understanding of the reasons behind some of the findings in this study. Finally, the limitation of Baron and Kenny’s (1986) approach to mediation analysis is that there is no statistical test of the strength of the indirect effect.

Suggestions for further Research

The study has identified the following areas for further study in the Accra Metropolis:

1. More extensive studies are needed to explore the causal mechanisms linking governance mechanisms to financial performance and to determine whether or not those relationships hold consistently over time. Due to the cross sectional nature of the data collected, the possibility of time lapse between corporate governance factors that influence SMEs' financial performance was not taken into consideration. It is therefore, suggested that future research use longitudinal data, as a long time lapse may provide greater insight into the effects of individual and organisational variables on financial performance. For the above to be realized more objective data on corporate governance and financial performance should become available.
2. This study can be duplicated across other parts of Ghana to confirm if the results of this research can be generalised across the whole country. This study can also be carried out in other parts of Africa for comparative purposes.
3. A mixed method research design could be employed to verify the findings that the aggregate effect of corporate governance on the financial performance of SMEs is insignificant and also gain a deeper understanding of the reasons behind some of the findings of this study.

4. Given the low value of the coefficient of determination (R^2) statistics found in the models used in this study, further research can be conducted to understand the effects of macroeconomic variables on SMEs' financial performance while controlling for corporate governance variables. They offer better explanatory power as determinants of SMEs' financial performance.

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APPENDIX A

QUESTIONNAIRE FOR OWNER/MANAGER

Dear Sir/Madam,

I am a Ph.D student undertaking a research project in partial fulfilment of the requirements for award of Doctor of Philosophy degree in Development Studies at the University of Cape Coast. This questionnaire has been designed to solicit information on the effects of corporate governance on the financial performance of Small and Medium Scale Enterprises (SMEs) in the Accra metropolis. The results would provide managers with more insight on the importance of effective corporate governance. You are therefore being invited to share your views on the issues under investigation. The responses would be used for purely academic purposes. Your confidentiality is greatly assured. Thank you for your help.

For Official Use:

Date:

Code:

Section A: Personal Information

1. What is your age in years? ___________________________________

2. Please indicate your sex Male [ ] Female [ ]

3. Please indicate (by ticking) your highest level of education you have successfully completed.

i. Never been to School [ ]

ii. Junior High [ ]

iii. Senior High [ ]

iv. Tertiary Level [ ]

4. How many years of work experience do you have? ________________

5. Do you have any start-up experience? Yes [ ] No [ ]

Section B: Company Information

6. How many staff members does your company employ? ____________________

7. Please indicate (by ticking) the core business of your organisation

i. Crafts and arts [ ]

ii. Agribusiness [ ]

iii. Food Processing [ ]

iv. Trading [ ]

v. Others (please specify) ____________________

8. How many years has your business been in operation? ____________________

9. Do you consider your business to be located at the central business district of Accra Metropolis? Yes ☐ No ☐

10. What is the ownership structure of your firm?

i. Sole proprietorship ☐
ii. Partnership ☐
iii. Incorporated company ☐
iv. Others (please specify) ____________________

11. Is the firm a family-owned business? Yes ☐ No ☐

12. Do you have other branch of your firm elsewhere?

Yes ☐ No ☐

13. How many persons do you have as advisors in running your business? ____________________

14. How many times in a year does management meet with these advisors? _______________

15. How many members do you have on the board of your firm? _______________

16. How many times in a year does management meet with these board members? _______________

17. What is your overall assessment of how the size of your business advisors affects the financial performance of your business?

18. What is your overall assessment of the effects of frequency (number of times) of meeting with your business advisors on the financial performance of your business?

Section C: Managerial Competencies

19. The following statements indicate some managerial competencies you would be required to have as a manager/manageress. Please indicate the degree of your competence on each activity by using the following 5-point scale. Where:

1=Lowest competence (Lo)

2=Low competence (LC)

3=Average competence (AC)

4=High competence (Ho)

5=Highest competence (HC)

	Managerial activities	Lo	LC	AC	Ho	HC
a.	I delegate assignments effectively	1	2	3	4	5
b.	I co-ordinate tasks effectively	1	2	3	4	5
c.	I practice effective risk management	1	2	3	4	5
d.	I comply with all industry-related regulations	1	2	3	4	5
e.	I can determine the interconnectedness of issues, problems and opportunities	1	2	3	4	5
f.	I maintain close relationship with stakeholders	1	2	3	4	5
g.	I plan the operations of the business	1	2	3	4	5
h.	I supervise subordinates effectively	1	2	3	4	5
i.	I lead subordinates effectively	1	2	3	4	5
j.	I maintain a personal network of contacts	1	2	3	4	5
k.	I do possess skills and experience to perform at high capacity	1	2	3	4	5
l.	I can train employees to acquire job-related skills	1	2	3	4	5
m.	I keep the organization running smoothly	1	2	3	4	5

n.	I motivate people	1	2	3	4	5

Section D: Strategic Competencies

20. The following statements indicate some strategic competencies you would be required to have as a manager/manageress. Please indicate the degree of your competence on each activity by using the following 5-point scale. Where:

1=Lowest competence (Lo)

2=Low competence (LC)

3=Average competence (AC)

4=High competence (Ho)

5=Highest competence (HC)

	Strategic activities	**Lo**	**LC**	**AC**	**Ho**	**HC**
a.	I develop and establish longer term directions for the firm	1	2	3	4	5
b.	I set achievable and realistic goals for the firm	1	2	3	4	5
c.	I have a personal vision on my role within the firm	1	2	3	4	5
d.	I evaluate business plans thoroughly	1	2	3	4	5
e.	I make strategic changes responsively and flexibly	1	2	3	4	5

f.	I set a favourable market position for the firm	1	2	3	4	5
g.	I evaluate the firm's position in the market	1	2	3	4	5
h.	I apply tactical strategies when necessary	1	2	3	4	5
i.	I plan the financial budget for implementing a strategy	1	2	3	4	5
j.	I develop contingency and flexible plans according to different situations	1	2	3	4	5
k.	I evaluate results against strategic goals	1	2	3	4	5
l.	I determine strategic actions by weighing co5sts and benefits	1	2	3	4	5
m.	I prioritise work in alignment with business goals	1	2	3	4	5
n.	I do shift business focus according to changes in the environment	1	2	3	4	5
o.	I have been planning the succession of employees for the firm	1	2	3	4	5

21. What is your overall assessment of how your managerial competence affects the financial performance of your business?

22. What is your overall assessment of how your strategic competence affects the financial performance of your business?

Section E: Corporate Social Responsibility

23. The following statements indicate how effective your firm is in dealing with the activities described. Please indicate the extent to which your firm engage in each activity by using the following 5- point scale. Where:

1=Lowest practice (Lo)

2=Low practice (LP)

3=Average practice (AP)

4=High practice (Ho)

5=Highest practice (HP)

CSR Practices		**Lo**	**LP**	**AP**	**Ho**	**HP**
a.	Energy conservation	1	2	3	4	5
b.	Supply clear and accurate information and labelling about products and services	1	2	3	4	5
c.	Resolve customer complaints in timely manner	1	2	3	4	5
d.	Committed to providing value to customers	1	2	3	4	5
e.	Quality assurance criteria adhered to in production	1	2	3	4	5

f.	Ensure adequate steps are taken against all forms of discriminations	1	2	3	4	5
g.	Consult employees on important issues	1	2	3	4	5
h.	Committed to the health and safety of employees	1	2	3	4	5
i.	Donate to charity	1	2	3	4	5
j.	Actively involved in projects with local community	1	2	3	4	5
k.	Purchasing policies that favour the local communities in which it operates	1	2	3	4	5
l.	Recruitment policies that favour the local communities in which it operates	1	2	3	4	5

Section F: Stakeholder Engagement

24. The following statements indicate how effective your firm is in dealing with the following types of stakeholders. Please indicate the extent to which your firm engage with each of these stakeholders by using the following 5- point scale. Where:

1=Lowest form of engagement (Lo)

2=Low form of engagement (LP)

3=Average form of engagement (AP)

4=High form of engagement (Ho)

5=Highest form of engagement (HP)

Stakeholder Engagement		Lo	LP	AP	Ho	HP
a.	Stakeholders directly affected by your organization's operations, both positively and negatively	1	2	3	4	5
b.	Stakeholders who have an interest in, or influence over the organization's operations	1	2	3	4	5
c.	Stakeholders who have knowledge about the impact of the operations of your firm	1	2	3	4	5
d.	Stakeholders who are part of the broader community who have an interest in, concern with, or influence over the operation of your firm	1	2	3	4	5
e.	Authorities or regulators at the national or local level	1	2	3	4	5
f.	Authorities who control or issue licenses or permits to operate	1	2	3	4	5
g.	Authorities or regulators who exercise control over your sector or industry	1	2	3	4	5
h.	Authorities responsible for social and economic development, infrastructure and service provision, town or regional planning	1	2	3	4	5

25. What is your overall assessment of how stakeholder engagement and corporate social responsibility affect the financial performance of your business?

Section G: Firm Reputation

26. Please indicate the rating you believe your stakeholders (e.g. customers, employees, other firms in your sector) would give your firm on each of the following indicators of a firm's reputation by using the following 5- point scale. Where:

1=Lowest reputation (Lo)

2=Low reputation (LR)

3=Average reputation (AR)

4=High reputation (Ho)

5=Highest reputation (HR)

Firm's reputation criteria		**Lo**	**LR**	**AR**	**Ho**	**HR**
a.	Quality of products and services	1	2	3	4	5
b.	Quality of staff	1	2	3	4	5
c.	Environmental responsibility	1	2	3	4	5
d.	Community responsibility	1	2	3	4	5
e.	Quality of management	1	2	3	4	5

27. What is your overall assessment of how the reputation of your firm affects its financial performance?

Section H: Access to Finance

28. Please indicate (by ticking) the main source of finance to the business

i. Personal savings

ii. Bank

iii. Third party investment (investors)

iv. Family investment

v. Joint venture with colleagues and friends

vi. Others (please specify) ____________________

29. Please indicate the ease with which your firm obtain finance from the sources listed using the following 5-point scale. Where:

1=Lowest access (Lo)

2=Low access (LA)

3=Average access (AA)

4=High access (Ho)

5=Highest access (HA)

Indicators of access to finance		**Lo**	**LA**	**AA**	**Ho**	**HA**
a.	Easily obtains finance from banks and other lending institutions	1	2	3	4	5
b.	Easily obtains finance from investors	1	2	3	4	5

Section I: Financial Performance

30. Please indicate the financial performance of your firm over the past three (3) years based on the listed financial indicators using the following 5- point scale. Where:

1=Lowest performance (Lo)

2=Low performance (LP)

3=Average performance (AP)

4=High performance (Ho)

5=Highest performance (HP)

Indicators of financial performance		**Lo**	**LP**	**AP**	**Ho**	**HP**
a.	Sales growth	1	2	3	4	5
b.	Profit growth	1	2	3	4	5
c.	Leverage (Total equity/Total debts)	1	2	3	4	5

31. What is your overall assessment of how access to capital affects the financial performance of your business?

APPENDIX B

ZERO CONDITIONAL MEAN, OMITTED VARIABLE BIAS AND HETEROSKEDASTICITY TESTS

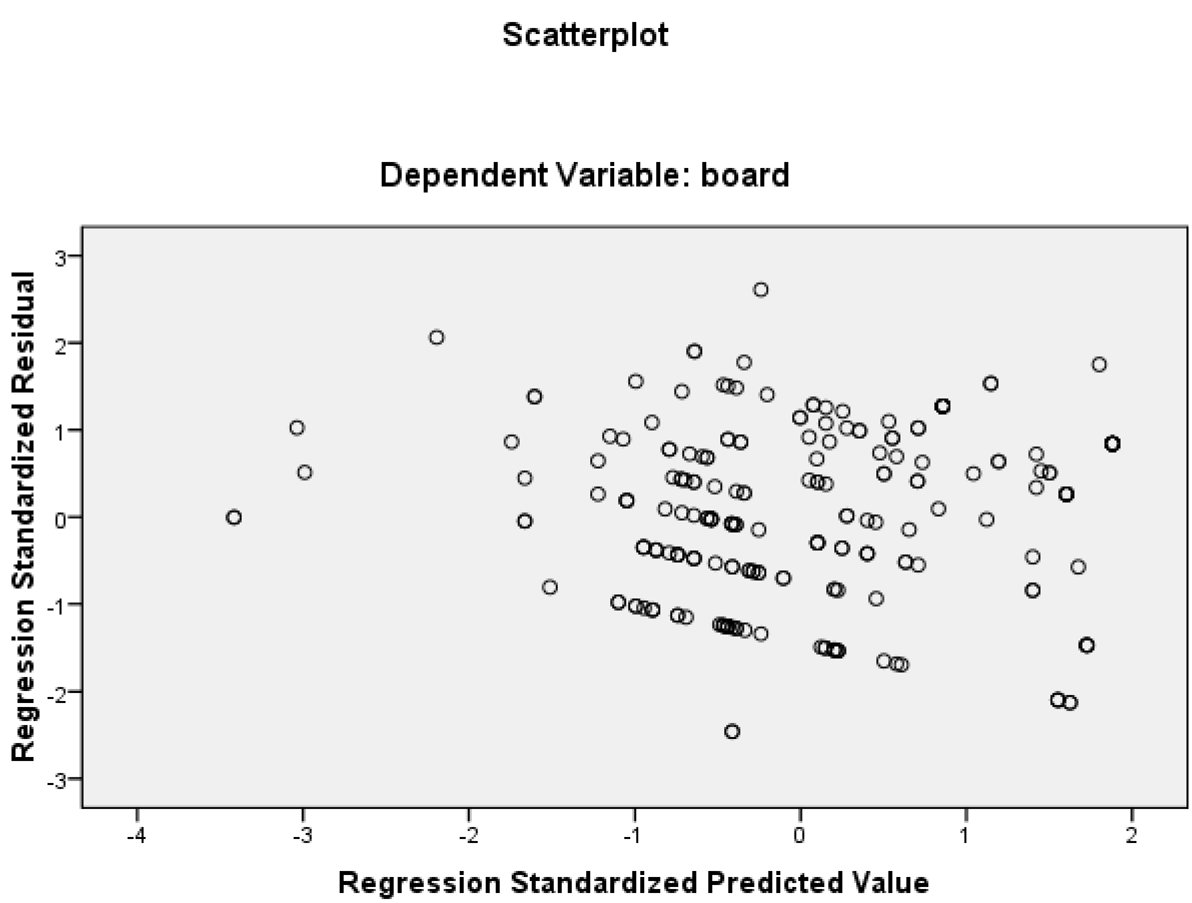
CHECKING FORMALLY FOR HETEROSKEDASTICITY FOR BOARD SIZE AND FINANCIAL PERFORMANCE: WHITE'S TEST

N=423; R^2=0.134

$n*R^2 = 74.6$

$X^2(423) = 471.95$

Since $n*R^2 < X^2$, there is no heteroskedasticity



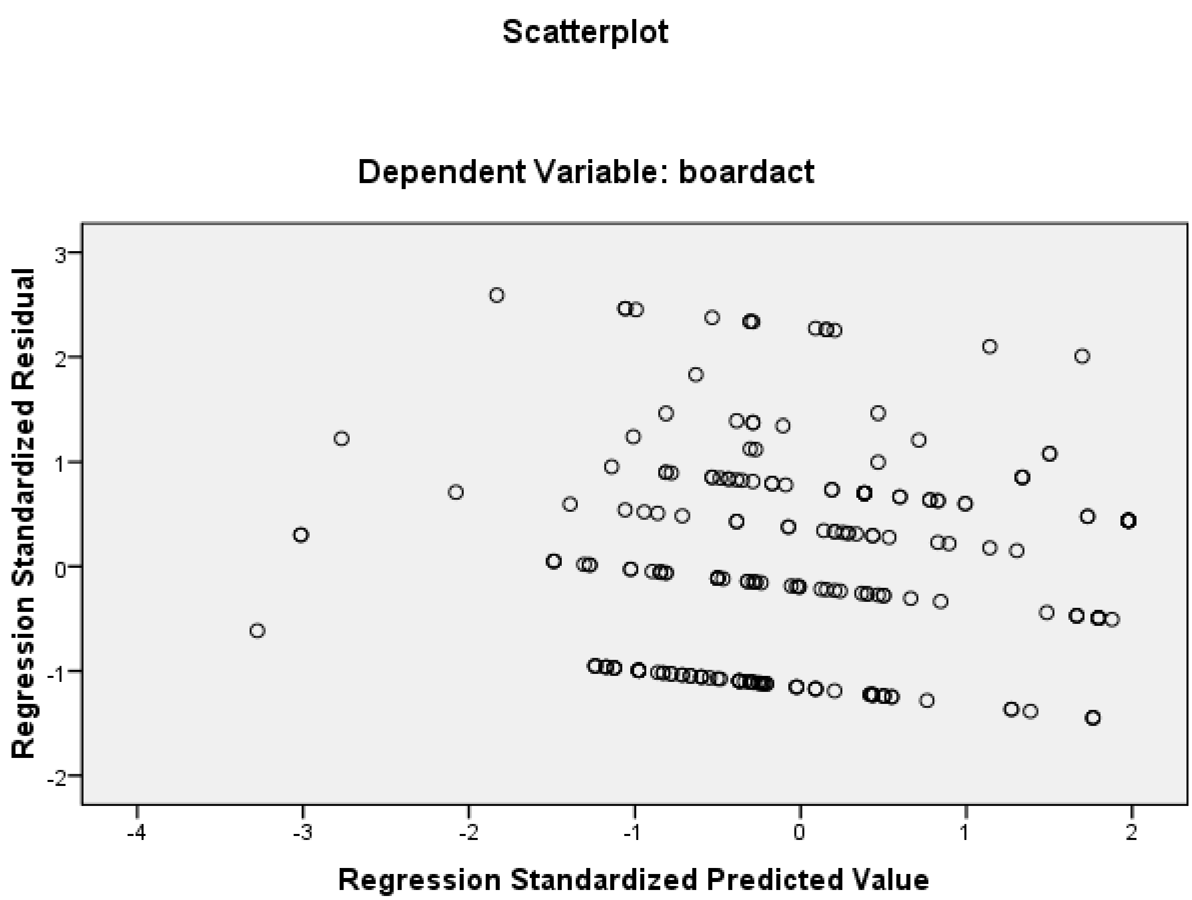
CHECKING FORMALLY FOR HETEROSKEDASTICITY FOR INTENSITY OF BOARD ACTIVITY AND FINANCIAL PERFORMANCE: WHITE'S TEST

N=423; R^2=0.127

$n*R^2 = 53.72$

$X^2(423) = 471.95$

Since $n*R^2 < X^2$, there is no heteroskedasticity



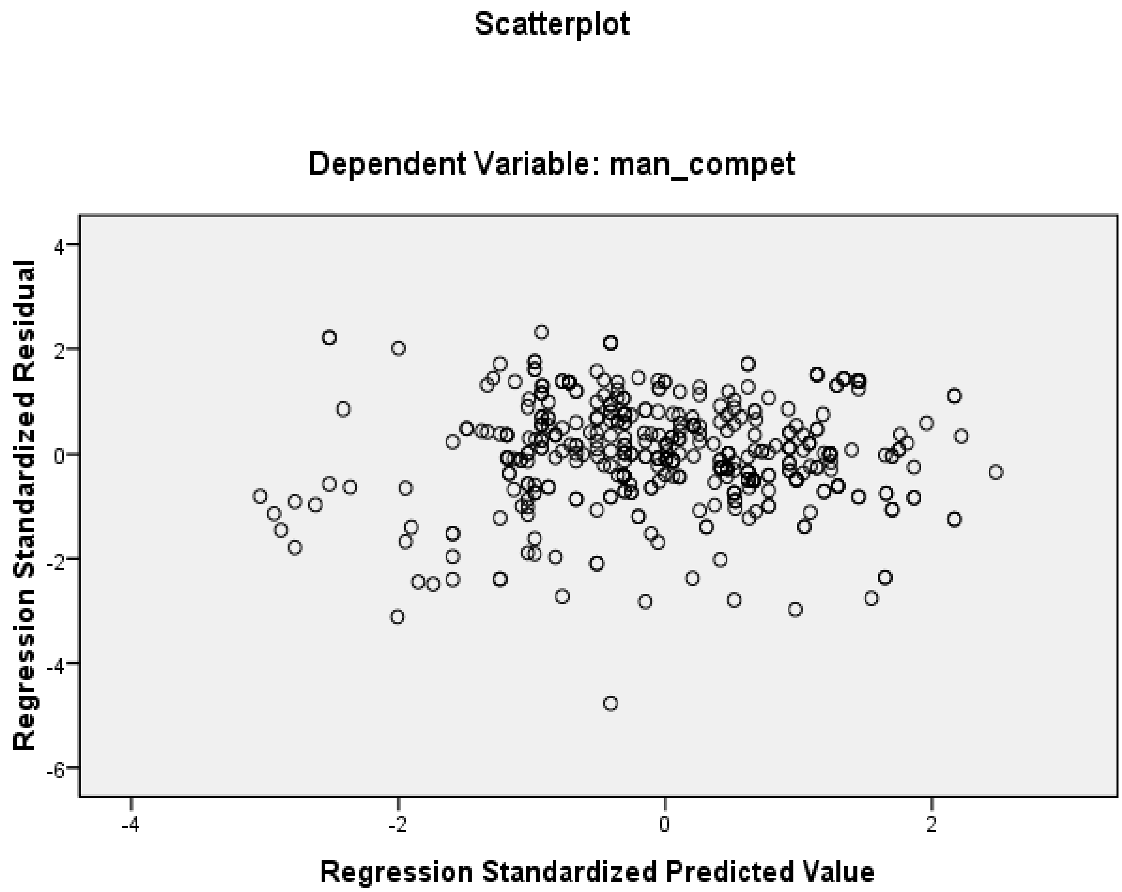
CHECKING FORMALLY FOR HETEROSKEDASTICITY FOR MANAGERIAL COMPETENCE AND FINANCIAL PERFORMANCE: WHITE'S TEST

N=423; R^2=0.140

$n*R^2 = 59.22$

$X^2(423) = 471.95$

Since $n*R^2 < X^2$, there is no heteroskedasticity



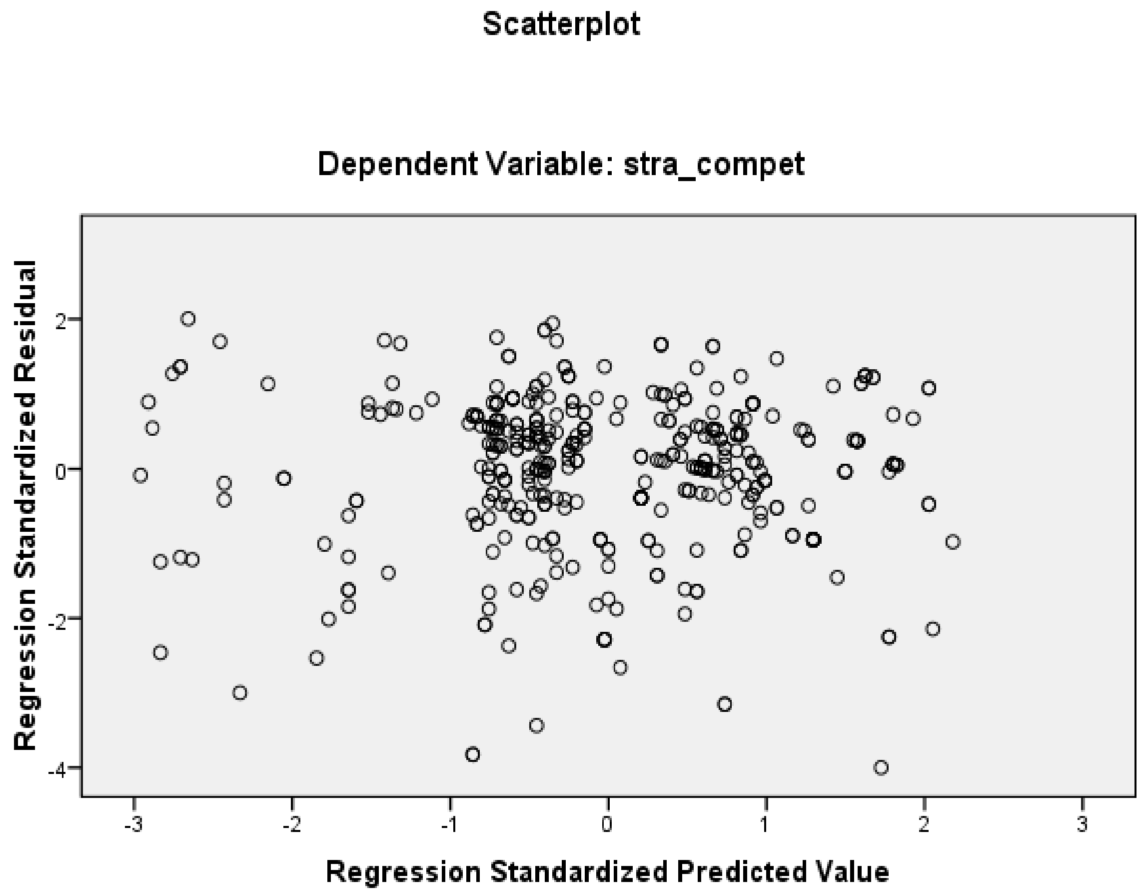
CHECKING FORMALLY FOR HETEROSKEDASTICITY FOR STRATEGIC COMPETENCE AND FINANCIAL PERFORMANCE: WHITE'S TEST

N=423; R^2=0.154

$n*R^2 = 65.14$

$X^2(423) = 471.95$

Since $n*R^2 < X^2$, there is no heteroskedasticity



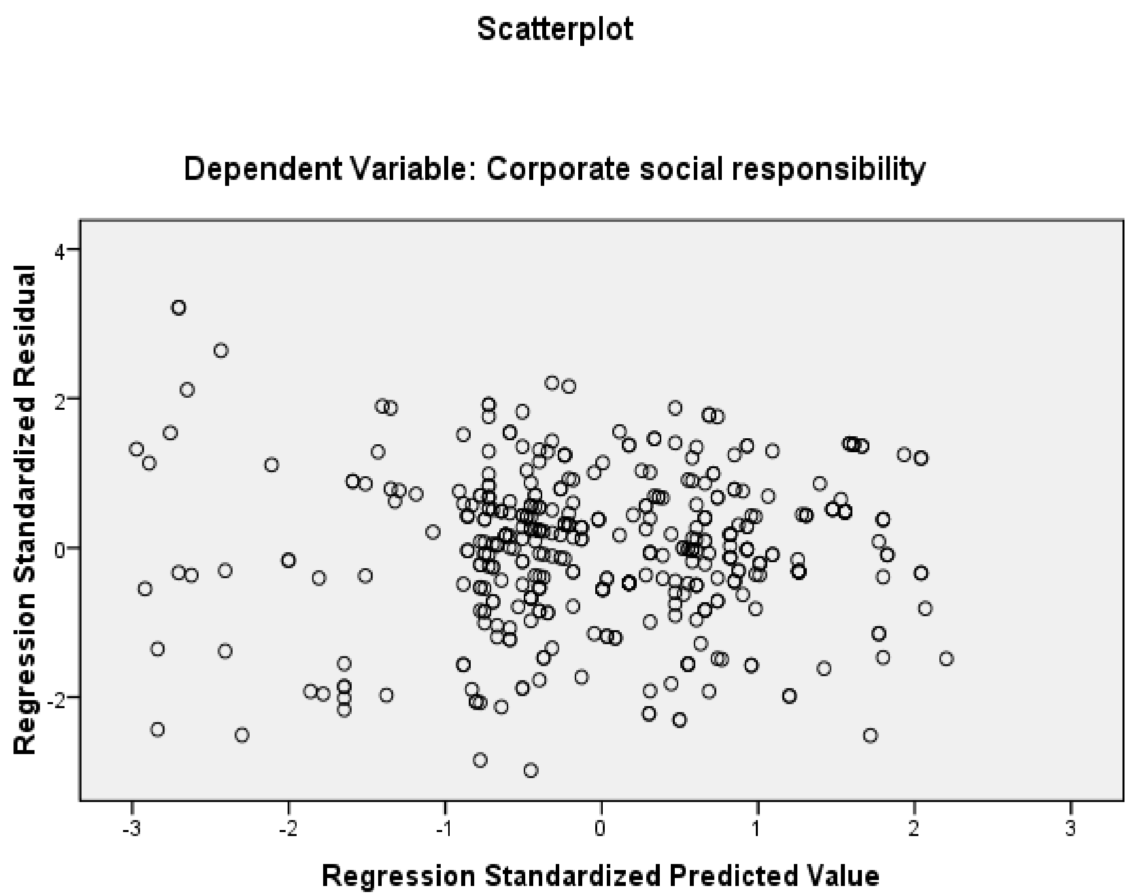
CHECKING FORMALLY FOR HETEROSKEDASTICITY FOR CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE: WHITE'S TEST

N=423; R^2=0.146

$n*R^2 = 61.76$

$X^2(423) = 471.95$

Since $n*R^2 < X^2$, there is no heteroskedasticity



CHECKING FORMALLY FOR HETEROSKEDASTICITY FOR STAKEHOLDER ENGAGEMENT AND FINANCIAL PERFORMANCE: WHITE'S TEST

N=423; R^2=0.146

$n*R^2 = 61.76$

$X^2(423) = 471.95$

Since $n*R^2 < X^2$, there is no heteroskedasticity