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# Corporate Governance and Performance of SMEs in Uganda

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## Abstract

SMEs in Uganda are currently the number one employers and contributors to GDP for this pearl of Africa. However business governance challenges faced by these Organisations are slowly decreasing their contribution to the economy. This paper examines how corporate governance practices can enhance the performance of SMEs. Results from a quantitative survey of 100 SME proprietors show that corporate governance increases accountability, effective decision making, fairness and equity and transparency aspects that significantly enhance the profitability of these organizations. Findings further showed that corporate governance infused better management practices, improved decision making, strengthened internal controls and reduced losses in SMEs that applied these principles. This paper advocates for government, business services organizations and commercial banks to provide more awareness , skills training and motivation for SME proprietors and managers in the use of corporate governance principles in their business operations.

**Key words:** Corporate Governance, Accountability, Fairness and Equity, Decision making processes, Transparency and Performance of SMEs

## Introduction

SMEs in Uganda are increasingly becoming the backbone of the economy. In Uganda, SMEs employ more than 2.5 million people, making up 90 per cent of those employed in the private sector. URA statistics (2013) show that, SMEs also contribute over 70 per cent to total Gross Domestic Product (GDP) in Uganda. However, their rate of survival and competitiveness are a cause for concern. SMEs are facing development and performance challenges related to ineffective business governance. Poor performance of SMEs would jeopardise the livelihoods of the many Ugandans they employ. Initiatives to improve the survival rate of SMEs, so that they can offer greater opportunities for business competitiveness, locally and globally are needed.

There is no universally accepted definition of SMEs in Africa. Definitions in other countries also lack uniformity, and reflect the relative development of the respective economies (Beyene, 2002). The most widely accepted definition was forwarded by the Bolton Committee that viewed it from an economic perspective. The committee suggested that a small business is one that has a relatively small share of the marketplace; is managed by owners or part-owners in a personalised way and has a non-formalised management structure; and is independent, that is does not form part of a larger enterprise (Hill, 2001). The most recent and applied

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definition of SMEs today is by the European Union, which categories, SMEs using the number of employees and turnover. In this categorization, mid-sized SMEs have less than 250 employees and a turnover of between £43 to 50 million; small have less than 50 employees and a turnover of £10 million and the micro have less than 10 employees and a turnover of £2 million. However, we have underlying similarities in the concept used in the definitions.

According to the Uganda Investment Authority (UIA) [2008], Uganda defines and classifies SMEs into three categories: micro enterprises, employing a maximum of four people, with an annual sales turnover of not more than UGX12 m and total assets of not more than UGX12 million; small-scale enterprises, which employ not more than 50 people, have an annual sales turnover of not more than UGX360 million and total assets not more than UGX360million; and medium enterprises, which employ more than 50 people, and have annual sales of more than UGX360 million and total assets of more than UGX360 million. The Institute of Certified Public Accountants of Uganda (2009) defines SMEs as those enterprises that do not have public accountability, publish general purpose financial statements for external users, whose debt and equity instruments are not traded in a public market and that do not hold funds in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

In Uganda, regardless of where they are, the micro and small business sector is highly diversified by ownership, type of industry and stage of development. Small business covers all sectors from resource-based industries to manufacturing and services. They may be start-ups, stable and established business enterprises or rapidly growing enterprises. They include self-employed people operating their businesses from their homes or from very small premises. However, in this paper, an SME is taken to be an incorporated business that is privately owned and operated, with a small to medium number of employees (5-100) and a relatively low volume of sales, of daily turnovers of about UGX75,000 (Ngobo, 1995).

**Background and Context**

Small and medium enterprises (SMEs) are regarded as engines of growth and development in developing countries. The Asian tigers, countries in Asia that have joined the realm of developed countries have used SMEs for their economic growth, job creation, and poverty reduction in developing countries (Trulsson, 1997). Even the developed countries of Europe and America heavily relied on SMEs to achieve accelerated economic growth and rapid industrialisation achieved. Uganda has adopted the use of the SME model in propelling her economic growth and industrialization. The Uganda Investment Authority (UIA) [2008] states that in Uganda, the estimated 800,000 SMES located in urban and rural areas contribute to 90 per cent of private sector production. SMEs in Uganda are the major source of new jobs and income for the poor (Hatega, 2007).

The potential advantages of the SMEs in a developing country like Uganda are many. First, they use less capital per worker than large firms do, because of the differences in the technology used to make the same products (PSFU, 2014). Secondly, Mandl (2009), argues that SMEs use resources that otherwise might not be drawn into the development process, e.g. workers with little formal training who learn skills on the job, or the small savings of the entrepreneurs who may not use the banking system but who may invest in their own firms etc. Thirdly, in addition to serving as a seedbed of entrepreneurship, small enterprises occupy a highly useful niche in the industrial structure, sub-contracting with large firms and engaging in small batch production, made-to-order work, or finishing operations complimentary to large-scale industry (Szabo, 2008).

A high failure rate of small-scale businesses is undesirable for an economy, like Uganda's, which is significantly supported by SMEs. Because of the importance that has been attached to these enterprises, there has been a lot of effort directed towards promoting them. In some countries, such as India, there has been affirmative and positive action towards promoting SMEs (Monk, 2000). Many African countries and indeed multilateral institutions have set up agendas and strategies for the development of these enterprises. In Kenya, for instance, the jua kalis have been supported by the Kenyan government (Kiggundu, 2002) as avenues of industrialising and developing the country. While the contribution of SMEs to development is generally acknowledged, these enterprises face many obstacles that limit their long-term survival and development. Research on SME development in Uganda has shown that the rate of failure is higher than in the developed world (Arinaitwe, 2012). Uganda is ranked second highest in terms of business start-ups per year but with one of the highest business failure rates in the world (GEM Report, 2014). Scholars have indicated that starting an SME in a developing country such as Uganda is a risky venture and warn that the chances of them making it past the five-year mark are very slim.

The growth of small enterprises should be reflected in the increasing number of registered businesses and in successful enterprises that recruit more people, produce more output and have a large capital base. Some of these SMEs should eventually expand to become big units (Mambula, 2002). However, this has not been the case in Uganda. The majority of SMEs have not even survived for one year. There is no empirical data indicating that small enterprises have grown into medium-size enterprises recruiting more people and producing more output. The death rate of SMEs in Uganda is very high (Tushabomwe-Kazooba, 2006). The majority of the small enterprises are not growing at all. While many reasons have been identified for the lack of growth of small enterprises, the key reason relates to managerial skills and governance. For instance, the Capital Markets Authority in Uganda developed guidelines in February 2003 as a minimum standard for good corporate governance practices by SMEs and issuers of corporate debt in Uganda. This was prompted by the growing importance of governance and the need to strengthen corporate governance practices by listed business firms in Uganda and to promote the standards of self-regulation so as to bring the level of governance into line with international trends.

Studies confirm that the governance of SMEs can either promote or impede the growth of small business enterprises. According to Sewannyana (1997) and Mutazindwa (1997), in some of the SMEs they studied, entrepreneurial behaviour and culture was prevalent, but the performance of the enterprise was poor owing to poor governance. The challenges facing SMEs have been recognised and various financing schemes have been established to assist the growth of these enterprises. Many non-governmental organisations (NGOs) have been established to finance SMEs. Pride Africa, FINCA Uganda, Uganda Women Credit Finance Institution, and many others are cases in point (Balunywa and Sejjaaka, 2007). However, none of these address the governance issue. There is need for both long-term and short-term strategies for improving the business governance of SMEs to guard against failure in Uganda, since they employ many people who are poor and come from marginalised groups (Sauser, 2005; Monk, 2000). These strategies need information on how the application of corporate governance can improve the performance of these enterprises by eliminating the challenges they face.

**The Problem**

The government is encouraging Ugandans to start SMEs so as to reduce the level of unemployment and also exploit the current East African Common Market. As a result, many Ugandans are opening up businesses to provide a variety of services in the food, entertainment, agriculture, education, transport and finance sectors (PSFU, 2014). However, the majority of these enterprises do not reflect the signs of growth such as being profitable or converting into medium or large enterprises. It is reported that one third of SMEs started in Uganda do not see their "first birthday" (Tushabomwe-Kazooba, 2006). Experts blame this high death rate of SMEs in Uganda to failure to apply effective business governance skills by proprietors. Corporate governance (CG) has been proposed as an impressive strategy to invigorate the operations and competitiveness of SME. Analytical and practical case studies on level of application of corporate governance practices and their contribution to the survival of SMEs in developing countries such as Uganda is also limited. The success of SMEs largely depends on the business governance skills used in meeting clients' needs and enterprise objectives (Ssendaula, 2002). Although CG has been mainly discussed in the context of larger businesses, there is compelling evidence that it can also be used as a strategic tool to enhance the competitiveness of SMEs (Mandl, 2009; Szabo, 2008). CG is viewed as a vital concept that businesses of all types and sizes need to understand and address. There was need to establish whether SMEs in Uganda have adopted corporate governance, aspects they are using and challenges they face in using corporate governance principles.

**Purpose**

The primary objective of this paper was to examine the extent to which SMEs in Uganda implement corporate governance, its influence on their performance and challenges faced in using corporate governance more effectively.

**Specific Objectives**

The objectives of the study were to;

- To analyze the extent to which SMEs in Kampala city implement corporate governance activities.
- To assess the level of performance of SMEs in Kampala city.
- To examine the relationship between corporate Governance and the performance of SMEs in Kampala city.

**Literature**

**Corporate Governance in a Business Context**

Corporate governance refers to practices and procedures through which a business is directed, administered and controlled (Clarke and de la Rama, 2008). Corporate governance influences how the objectives of a business firm are set and achieved, how risk is monitored and assessed, and how performance is optimized (Colley,Stettinius,Doyle & Logan, 2005). Good corporate governance structures enable business firms to be more profitable through entrepreneurism, innovation and development (Clarke, 2004). Through corporate governance, firms acquire accountability, transparency, fairness and equity and control systems commensurate that enable them to more efficient, maintain employment engagement and commitment (OECD, 2004). This subsequently results into maximizing wealth for the owners (shareholders).

According to OECD (2004), an effective system of corporate governance should have both internal and external aspects. Internal aspects include ownership structure, the board of directors and committees, internal control, risk management, transparency and financial reporting. External aspects are the social requirements of the business enterprise. This study concentrated on internal corporate governance because it focuses on financial disclosure and it has a tremendous influence on corporate governance legislations all over the world (Clarke, 2007).

**Accountability**

Accountability is one of the most important principles of corporate governance implemented by organizations. According to Echt et al (2004), accountability is ensuring that all that directors, managers and employees of a business firm are to achieve its objectives, in line with the mission and vision of the firm. Accountability is achieved through clear separation of powers. Separation of power requires the business owners to be different from business managers. This application of separation of powers is further developed, where separate divisions check and balance each other's actions. According to OECD (2004), one group may propose business firm-wide administrative changes, another group may review and veto the changes, and a third group may check that the interests of people (customers, shareholders, employees) outside the three groups are being met. This proper balance of power ensures sound business decisions that result into profitability to the enterprise. . Also, as the firm grows, the need to introduce professional governance practices and managers arises. This begins the process of separation between management and owners.

According to Echt et al (2004), corporate governance ensures that the board of directors is accountable for the pursuit of a business firm's objectives and that the business firm itself conforms to the law and regulations. Özekmekçi, Abdullah and Mert (2004) hold that accountability ensures a clear control structure for the business. SMEs normally have shareholders and other interested parties. SMEs have to establish a clear chain of command and distribution of duties. They have to show the roles of shareholders, or business owners, those of the board and those of management and employees. According to UNCTAD (2003), the directors are responsible for supervision, management is responsible for managing and auditors act as a watchdog. Efficient financial management is also a core element of good business governance. Good financial management is made up of budgeting and cash management, management accounts and audited accounts. Proper accountability ensures high business performance in the following ways.

The board is has a crucial responsibility to ensure that the business is run effective according to the mission and vision of shareholders. The board of directors has the legal authority to hire fire and compensate top management. It also safeguards invested capital (Clarke, 2004). Regular board meetings allow potential problems to be identified, discussed and avoided before they can adversely affect business performance. The ability of the board to monitor the firm's managers enables access to information that eventually improves performance.

When an SME has a functioning management board, Board members bring in expertise and knowledge on financing options available and strategies to source such finances, enabling the SME to manage credit constraints that it may have. According to UNCTAD (2006), corporate governance enables SMEs to clearly articulate the role of other stakeholders through a bottom-up approach. This enables the views of workers and management to be explicitly laid out in board meetings. Therefore the infusion of external board membership with internal management becomes a high incentive for the board member (s) to introduce ways of attracting finance. Non-executive directors who are on the board can also introduce creativity and innovation through opinions and suggestions during decision-making.

This mode corporate governance has been used in Japan and it has increased Small growth rates of SMEs. SMEs with board achieve rapid growth strategies which results into rapid profits. Also SMEs with functioning boards qualify to be listed on the Uganda stock exchange which increases their capital base, professional management and profitability. This facilitates a smooth transition from a small to medium and finally large company (UNIDO, 2006).

**Transparency**

According to Shleifer and Vishny (1997), internal control procedures are policies implemented by the enterprise's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the enterprise achieving its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations. Internal auditors are personnel within an organisation who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting. Effective internal controls check the operations of the top management of the enterprise to ensure that they do not make non-profitable operations

**Decision-making processes**

Good decision-making is best achieved with the availability of proper information and wide participation (OECD, 2004). SMEs should have a system of collecting accurate business information from management and allowing management, auditors and subordinate staff to participate in decision-making. Small businesses should have well-established systems for gathering information and forecasting that customers can also access. With this practice, SMEs would find no difficulty in keeping their bankers informed of their current financial position and prospects.

## Fairness and equity

According to Clarke (2004), shareholders value business efficiency and profits. So there is need for a system to protect the interests of customers and employees. Fairness and equity in corporate governance ensures the distribution of wealth by ensuring job security, minimizing income inequality and promoting social welfare. Fairness and equity ensures that all financial stakeholders receive their fair share of a business firm's earnings and assets. Fairness and equity is concerned with holding the balance between economic and social goals and between individual and communal goals (Shleifer and Vishny, 1997). The well-being of an organisation is dependent on how many its members achieve a feeling of inclusiveness. Shareholders and directors, who may not be part of daily operations, need to be involved through timely and accurate reports. Minority shareholders' views have to be considered and respected. Employees should feel that their contributions are important to the enterprise's overall goals. In this respect, SMEs need a system that gives employees clear responsibilities and acknowledgement for their performance, which can make them more dedicated and productive.

## Methodology

The study used a survey design that was rooted in the quantitative paradigm. Respondents in this study were selected from SME proprietors from Kampala city. Proprietors were selected from Kampala due to the fact they were better organized under KACITA, a Kampala trader's organization supporting SMEs. The sample was selected from 420 Businesses registered with KACITA (KACITA, 2014) in the categories trade, agro-processing and small scale manufacturing. Blanche, Durrheim and Painter (2008) sample determonation strategy was used to come with the sample size. According to Blanche, Durrheim and Painter (2008), for a population less than 1000, a sample of 30% is sufficient in representing the entire population. Therefore for this study, 30% of 426 businesses gave rise to 128. A total of 128 quetsionbaires were given out but 100 were retrurned fully completed, giving a 78% response rate . Hence the 100 prproetors who fully complated and returned the instruments made up the actaul study sample. Primary data was obtained using a structured questionnaire. In the questionnaire, respondents indicated whether they disagreed or agreed to statements that measured each of the five issues that were being investigated. Responses were made on a likert scale for which 1 represented strongly agree, 2 , disagree, 3, not sure, 4 agree and 5 strongly agree.

Data was checked for completeness, consistency and accuracy immediately after it was collected. Data entry screens for quantitative data were developed with all the necessary validation tools to eliminate error that could be introduced at the stage of data entry (Zikmund, 2000). A variety of analyses were conducted to explore the objectives of the study using the Statistical Package for Social Scientists (SPSS) version 17. First, descriptive statistics were run to explore the extent to corporate governance principles (accountability, fairness and equity, decision making processes and transparency) were being implemented by SMEs and level of business performance. For each variable, the frequency of occurrence on each item measuring the variable and the mean were calculated. The mean response was taken to show the general view of respondents on the item (Ary & Razavieh, 2002). Therefore, the more the items on which respondents generally agreed, the higher the level of agreement of respondents on the implementation of corporate governance in their organization (Sekaran, 2009). Then, correlation and regression analysis was done to establish the relationship and contribution of corporate governance structures on the performance of SMEs.

## Findings and Discussion

The results and discussion are presented are under the themes derived from the objectives of the study. Descriptive statistics were used to establish the level of implementation of corporate governance by SMEs in Kampala city. Frequencies and means responses on each of the items measuring the variable were calculated. Descriptive statistics were used to establish extent to which SMEs implemented accountability, fairness and equity, decision making processes and transparency in their business operations. Mean responses and standard deviations on each item measuring the variable were calculated. This was done to establish the level of occurrence of the variables. The more the items on which respondents agreed, the higher the occurrence and subsequently implementation of the variable by the SME.

**Accountability of SMEs**

To establish the extent to which SMEs in Kampala implemented accountability principles, respondents indicated the extent to which they disagree or agree to 12 statements indicating existence of accountability in an organization in the table below.

| Aspect | SD | Mean response | Overall rating |
|---|---|---|---|
| My SME has a clear control structure (board, executive, staff) | 2.1 | 1.4 | Strongly disagree |
| My SME has a clear chain of command | 1.1 | 4.1 | Agree |
| My SME has a functioning governing board | .89 | 2.1 | disagree |
| Our governing board meets regularly and has clear responsibilities | 1.2 | 1.7 | Strongly disagree |
| The governing board has external experts | 1.0 | 2.1 | disagree |
| Board meetings are managed professionally | 1.3 | 2.2 | disagree |
| My SME has professional management | 1.2 | 4.3 | agree |
| The management is qualified and was appointed on merit | .56 | 4.1 | agree |
| Employees in my SME have clear responsibilities | 2.1 | 4.1 | Agree |
| My SME implements professional budget and cash management | 2.0 | 3.5 | agree |
| My SME has professional accounting standards | 1.4 | 4.4 | agree |
| My SME conducts regular auditing | 1.1 | 4.3 | agree |
| Key: SD= Strongly Agree, D= Disagree, NS=Not Sure, A= Agree, SA=Strongly Agree | | | |

As far as accountability is concerned, the respondents agreed that their SMEs had professional management (mean response =4.3 SD=1.2), the management was qualified and appointed on merit (mean response 4.1= SD=1 0.56), employees had clear responsibilities (mean response =4.1 SD=2.1) and they implemented professional budgeting standards (mean response= 3.5 SD=2.0). They also indicated that they had professional accounting standards (mean response =4.4 SD=1.4) and conducted regular auditing of accounts (mean response= 4.3 SD=1.1).

However, SME proprietors disagreed that revealed that they had clear specific control structure (mean response= 1.4 SD= 2.1), functioning governing boards (mean response =2.1 SD=.89) and therefore boards met regularly (mean response =41.7 SD=1.2) and boards had external experts (mean response =2.1 SD=1.0), or governed professionally (mean response =2.2 SD=1.3). This finding indicates that while SMEs tried to implement accountability aspects related to management, they still had challenges in ensuring professional control through management boards and external experts. As indicated by Echt et.al. (2004), the board of directors can ensure that firm objectives and that the business firm itself conforms to the law and regulations. The high failure rate of SMEs may be due to lack of effective control, meaning that management decisions are not audited to ensure discipline. Since the board is responsible for supervision, SMEs without a board or with a weak one may not have efficient financial management, which is a core element of good business governance. According to Clarke (2004), regular board meetings allow potential problems to be identified, discussed and avoided before they can adversely affect business performance. This aspect is missing in SMEs that were studied.

**Decision making processes of SMEs**

To establish the extent to which SMEs in Kampala implemented effective decision making processes, respondents indicated the extent to which they disagree or agree to 4 statements indicating existence of clear and participatory decision making in an organisation in the table below.

**Table 2**: Aspects of decision-making implemented by SMEs

| Aspect | SD | Mean response | Overall rating |
|---|---|---|---|
| My SME has a system of collecting accurate business information | 1.5 | 3.2 | Not sure |
| In my SME decisions are based on accurate information | 1.2 | 2.2 | disagree |
| In my SME, all employees participate in decision-making | 1.3 | 2.1 | disagree |
| My SME has clear and reliable channels of communicating decisions | 2.1 | 4.2 | agree |
| Key: SD= Strongly Agree, D= Disagree, NS=Not Sure, A= Agree , SA=Strongly Agree | | | |

With regard to decision-making, the table above shows that the respondents agreed that their SMEs had a clear and reliable channel of communication (mean response= 4.2 SD=2.1) but disagreed that all employees participated in decision-making (mean response= 2.2 SD=1.2), that their SMEs had a system of collecting accurate business information (mean response= 2.1 SD= 1.3) and that decisions were based on accurate information (mean response= 3.2 SD=1.5). This finding indicates that SMEs still had a big challenge in implementing effective decision-making since they did not have accurate information on which to base decision-making. Given the low rates of information and limited participation of all employees in decision-making, as indicated by OECD (2004), SMEs would find it difficult to keep their bankers informed of their current financial position and prospects. This would jeopardise their prospects of getting credit from the banks. As indicated by Clarke (2007), SMEs without good information management may not have the in-house capacity to undertake financial and accounting tracking, reporting, budget tracking and risk management. This would make it difficult for them to access financial credit from banks. This implies that one of the causes of difficulties in accessing credit from banks among SMEs in Uganda, as revealed by the Uganda Business Plan (2007), is lack of good business decision-making.

### Fairness and Equity of SMEs

To establish the extent to which SMEs in Kampala implemented fairness and equity, respondents indicated the extent to which they disagree or agree to 5 statements indicating existence of fairness and equity in an organisation in the table below.

| Aspect | SD | Mean response | Overall rating |
|---|---|---|---|
| All stakeholders in my SME feel they are part of the organisation | 1.6 | 2.1 | disagree |
| All employees' contributions are respected | .67 | 3.0 | Not sure |
| Employees have clear responsibilities | 3.1 | 4.2 | agree |
| Employees are acknowledged for their performance | 1.1 | 4.1 | agree |
| My SME has a clear and objective performance measurement procedure | 1.4 | 2.0 | disagree |
| Key: SD= Strongly Agree, D= Disagree, NS=Not Sure, A= Agree , SA=Strongly Agree | | | |

With regard to fairness and equity, the respondents were not sure (mean response= 3.0 SD=.67) that their SMEs respected the contributions of all employees. However, they agreed that, employees had clear responsibilities (mean response= 4.2 SD=3.1), and employees were acknowledged for their performance (mean response= 4.1 SD= 1.1). They disagreed that all stakeholders felt that they were part of the enterprise (mean response= 2.1 SD= 1.6) and their SMEs had clear and objective performance measurement procedures (mean response= 2.0 SD=1.4). This finding reveals that the internal set-up of many SMEs is insufficient in terms of having systems and structures for prudent business management. As indicated by Monk (2000), these weak sets that characterised most SMEs in Africa normally led to poor business performance.

**Transparency of SMEs**

To establish the extent to which SMEs in Kampala implemented transparency principles, respondents indicated the extent to which they disagree or agree to 3 statements indicating existence of transparency in an organisation in the table below.

**Table 4**: Aspects of transparency by SMEs

| Transparency | SD | Mean response | Overall rating |
|---|---|---|---|
| We have a clear reporting system in my SME | 1.1 | 2.1 | Disagree |
| In my SME organisation the operations are clear to everyone | 2.0 | 2.3 | disagree |
| Relevant details are distributed to all stakeholders who need them | 3.1 | 2.2 | disagree |
| Key: SD= Strongly Agree, D= Disagree, NS=Not Sure, A= Agree , SA=Strongly Agree | | | |

With regard to transparency, the respondents disagreed that they had a clear reporting system (mean response= 2.1 SD= 1.1), the operation of their SME was clear to everyone (mean response= 2.3 SD=2.0) and relevant details were distributed to all stakeholders (mean response= 2.2 SD=3.1). This finding implies that generally SMEs did not apply fairness and equity. This may have been caused by the large number of SMEs operating as sole proprietorships or being owned by a family. As indicated by Shleifer and Vishny (1997), fairness is important in enabling all members of a business enterprise to feel that they are part of it. This feeling of inclusiveness raises the morale of employees as well as the level of their organisational commitment. High organisational commitment reduces tardiness and absenteeism and increases work performance. The poor performance of SMEs in Uganda is likely to be due to the low organisational commitment of members, especially employees, which leads to low work performance.

**Level of Performance of SMEs in Kampala City**

To establish the level of business performance of SMEs in Kampala, respondents indicated the extent to which they disagree or agree to 7 statements indicating good business performance in the table below.

**Table** 5: Level of Performance of SMEs

| Aspects of Business Performance | SD | Mean response | Overall rating |
|---|---|---|---|
| My business enterprise can easily access credit due to proper books of accounts | 1.2 | 3.1 | Not sure |
| My business enterprise had increased sales due to good accountability | 1.1 | 3.0 | Not sure |
| My business enterprise has had new clients due to our transparency | .76 | 4.1 | agree |
| Employees in my business enterprise have high levels of engagement due clear and participatory decision making | 1.0 | 4.3 | agree |
| My business enterprise has expanded to other towns in Uganda due available plough back profits | 1.2 | 2.2 | disagree |
| Our customers have stuck to our products due to the high quality we exhibit | 1.8 | 2.3 | disagree |
| Shareholders have increased their investment in our business enterprise due to our good performance | 1.3 | 4.2 | Agree |

The findings in the table above show that SMEs only had average performance levels. Respondents agreed that had new clients due to our transparency (mean response= 4.1, SD= .76), high levels of engagement due clear and participatory decision making (mean response= 4.3, SD = 1.0), and Shareholders have increased their investment in our business enterprise due to our good performance (mean response = 4.2, SD = 1.3). Respondents were not sure whether, business enterprise can easily access credit due to proper books of accounts (mean response= 3.1, SD = 1.2), and had increased sales due to good accountability (mean response= 3.0, SD = 1.1). Respondents disagreed that business enterprise has expanded to other towns in Uganda due available plough back profits (mean response = 2.2, SD = 1.2) and customers have stuck to our products due to the high quality we exhibit (mean response = 2.3, SD = 1.8). The findings shoe that business enterprises only performed well in the areas of satisfying their clients, shareholders and employees. They did not do well in the core aspects of business performance of increased sales, profits, market share and expansion. This was probably due failure to fully implement all the four aspects of corporate governance. This conclusion was explored in the sections below.

**Relationship between Corporate Governance and Performance of SMEs in Kampala City**

Quantitative scores on corporate governance were correlated with scores on business performance using person r correlation coefficient.

**Table 5**: A bivariate correlation table showing relationship between corporate governance and SME performance

| Variable | Performance | N | P-Value |
|---|---|---|---|
| Accountability | 0.56* | 100 | .04 |
| Decision-making | 0.46* | 100 | .27 |
| Fairness and equity | 0. 66* | 100 | .04 |
| Transparency | 0. 53* | 100 | .01 |

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

As indicated in the table above, corporate governance had high correlations with business performance. The table above shows that there was a high significant positive correlation between accountability and performance (r=.56, p=0.04), implying that as accountability improved, the general performance of SMEs also increased, and vice versa. With regard to decision-making, there was a non-significant relationship between it and performance (r=.46, p=0.27). As far as fairness and equity and transparency are concerned, they had high significant positive correlations with performance (fairness and equity r=.66, p=0.04; transparency, r=.53, p=0.01). This implies that three aspects of corporate governance are significant in SMEs in Uganda. These are accountability, fairness and equity and transparency.

This implies that the low performance values that were evident in SMEs that were studied are a result of the SMEs having no clear and specific control structure, and not having functioning governing boards which met regularly to make important business decisions and also to control the performance of management. The SMEs also lacked external experts to enable them to be governed. It was also evident that failure to implement effective decision-making owing to lack of accurate information to support effective decision-making was affecting the performance of SMEs in Uganda.

Accountability, fairness and equity and transparency have significantly positive impacts on profitability. In case the implementation of these aspects is low, the performance of a business enterprise will also be low. As mentioned by PSFU (2014), corporate governance can greatly boost the performance of SMEs in Uganda by infusing better management practices, stronger internal auditing, greater opportunities for growth and a new strategic outlook. Therefore, the study has revealed the need for SMEs in Uganda to improve their implementation of corporate governance so as to increase their business performance. These findings agree with Kiggundu (2002), who said that corporate governance enables SMEs to improve productivity and profitability and enhances market competitiveness so that they may remain in business.

### The influence of corporate governance on Performance of SMEs in Kampala City

While the correlations had shown the nature and magnitude of relationship between corporate governance and the performance of SMEs, there was need to establish the specific contribution of corporate governance to the performance of SMEs. Regression analysis was done to establish the overall contribution of corporate governance to business performance. A multiple regression test was run. The independent variables (accountability, transparency, fairness and equity and decision making processes —were regressed with business performance of SMES.

Regression analysis is recommended for continuous data, yet the data collected was categorical. However, scoring data by summing up the categorical responses transformed it into continuous data, thus making regression analysis possible. Using the multiple regression equation, $Y = a + b_1x_1 + b_3x_3 + b_4x_4 + e$ multiple regression was run and the findings are shown in the table below.

**Table 6:** Multiple regression analysis of corporate governance practices that contribute to business performance Among SMEs

| **Model** | **Unstandardised** | | **Unstandardised** | | |
|---|---|---|---|---|---|
| Coefficients | | | Coefficients | | |
| | **B** | **Std. error** | **Beta** | **t** | **Sig.** |
| 1 (constant) | 8.836 | 5.103 | | 1.732 | .000 |
| Accountability | .240 | .092 | .381 | 2.590 | .021 |
| Decision making | .029 | .025 | .043 | 1.185 | .038 |
| Fairness and equity | .428 | .169 | .311 | 2.538 | .012 |
| Transparency | .521 | .341 | .126 | 3.222 | .011 |
| Dependent variable: Business performance; F = 163.918; R square adjusted = 38.2% | | | | | |

The findings in the table above show that accountability (beta = .381; t = 2.59; p = .021), decision making (beta = .043; t = 1.185; p = .038), fairness and equity (beta = .311; t = 2.538; p = .012) and transparency (beta = .126; t = 3.222; p = .011) were significant predictors of business performance. All the variables accounted for 38.2 % (R square change = .382, F = 163.918) in business performance. The low contribution (38.2%) of corporate governance to variations in business performance, is likely due limited implementation of these aspects by SMES explains why the combined contribution of the variables is only 38.2%.

### Challenges faced by SMEs in Implementing Corporate Governance

The challenges faced by SMEs in implementing corporate governance were explored using a frequency table. The findings are indicated in the table below.

**Table 7**: Proprietors' responses on challenges faced by SMEs in implementing corporate governance

| **Responses** | **Frequency** | **Percent** |
|---|---|---|
| Lack of awareness | 34 | 34 |
| Lack of technical knowledge | 44 | 44 |
| Lack of support | 22 | 22 |
| Total | 100 | 100 |

As indicated in the table above, the majority of proprietors said that they were not able to implement corporate governance because they lacked the technical knowledge about what it is and how to implement it. This is likely due to the fact that most SMEs in Uganda are family businesses which are not inclined to follow professional management, hence employing managers with limited education.

Others said that they lacked awareness (34%) and support from the business support services for implementing corporate governance (22%). The limited awareness is likely caused by SMEs not being aware that they need to implement corporate governance. According to Clarke (2007) corporate governance is needed by all types of business entities because it is about what business entities do with something after they acquire it. Since corporate governance describes all the influences affecting the processes of a business entity, all types of firms, whether or not they are incorporated, need it.

Therefore, implementation of corporate governance among SMES can produce a significant increase in business performance. This is especially the case with regard to accountability, fairness and equity and transparency. This implies that SMEs and their business support partners should strengthen the implementation of these three aspects. The aspects are more relevant in the Ugandan business environment. Corporate governance is relevant because it raises the morale of employees, enables SMEs to easily access credit, increases the productivity of SMEs and enhances trust among customers in SMEs. This is in line with Sun (2009), who affirmed that corporate governance enables an SME to improve productivity and profitability and enhance market competitiveness so as to remain in business. However, SMEs still face real challenges in this area. The majority of the proprietors said that they were not able to implement corporate governance because they lacked technical knowledge related to what it is and how to implement it. Others said that they lacked awareness of the different aspects of governance and got limited support from the business support services for implementing corporate governance. The key informants said that SMEs were not able to implement corporate governance because they lacked skills, support and awareness of corporate governance. This finding is in line with Hatega (2007), who affirmed that a practical strategy for resolving constraints faced by SMEs is to increase their use of corporate governance.

## Conclusions

It is acknowledged that SMEs provide the foundation on which the economic growth and stability of any country rests. Several benefits that SMEs can gain as a result of properly implementing CG have been highlighted. SMEs can achieve increased performance and competitiveness without necessarily increasing their actual size, but rather by adapting specific CG practices. As such, CG is not a shortcut to the success of SMEs, but an investment that can pay off in the longer term. Implementing CG can be valuable in terms of improving accountability, transparency decision making and fairness and equity. As such, SMEs in Uganda should be encouraged to view the benefits that can arise from implementing CG. The findings of the study could be very important to the national SME policy in the area of governance. They would be of specific relevance to Private Sector Foundation Uganda, Uganda Small Scale Industries Association and Uganda National Chamber of Commerce and Industry and SME proprietors.

## Policy Implications

The outcomes of this paper can help a great deal in improving the survival rate of SMEs, and may offer great opportunities for competitiveness in business, locally and globally. SME proprietors need practical training and education regarding how to use corporate governance in running their businesses. This training will show them the value of corporate governance in improving their performance. Organisations that provide business services to SMEs need to include aspects of corporate governance in their training and service provision.

The government and organizations that provide business service to SMEs need to put in place policies that will encourage SMEs to use corporate governance. Institutions that award credit to SMEs, such as commercial banks, can insist on evidence of implementing corporate governance before they extend credit to SMEs. This will motivate SMEs and improve their business management through getting them to implement corporate governance.

SMEs need a uniting, governing and regulating body called the National SME Coordinating Council. This council can strengthen and expand the entrepreneurship and business management skills of the proprietors through small business management programmes and their outreach, including corporate governance. The council can also enhance the capacity of SMEs for understanding and applying formal accounting and financial management systems, which is a step towards corporate governance. The council can also introduce incentives for service providers to develop innovative products and services targeting cross-cutting issues. SMEs also need a government regulatory body called the National SME Authority (NSMEA). This body would be concerned with education, service provision and monitoring of sourcing for infrastructure. The authority, with the active support of the new National Coordinating Council, could provide monitoring and policy implementation regarding the use of corporate governance by SMEs.

Finally, further research should be encouraged to explore the actual skills needed by SME proprietors in order to implement corporate governance. It is also important to know the perception by SMEs of the relevance of corporate governance to SME operations in the Ugandan business environment.

**Limitations**

The findings revealed the extent to which SMEs in Uganda implement corporate governance. Although the research results make a great contribution to the current knowledge,
there are still some limitations . Findings were obtained from only one district, so they may not have a truly national character. A more comprehensive study involving more districts may be needed in future. There was a likelihood of respondents providing partial information to make them feel safer or wishing to please government, their bosses and the general public. This though problem was catered for in the way questions were worded it may not have been completely eliminated.

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