CORPORATE GOVERNANCE AND MANAGEMENT OF SMALL AND MEDIUM SCALE ENTERPRISES IN LAGOS – NIGERIA

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ABSTRACT

This paper examined corporate governance and the management of SMEs in Lagos state. Corporate governance is not particularly alien to SMEs, hence this study focused on rating respondents perspective in vital areas of corporate governance to an organisation as well as measured its significant effect on accountability and efficiency of operations. The study gathered data by means of a questionnaire from SMEs owners and managers numbering a total of 491 valid participants. Using mean scores, one-sample t-test and regression ANOVA, results were attained and analysed with reference to the hypotheses formulated. The result revealed that good corporate governance was accepted to promote strategic guidance of SMEs for effective monitoring of their environment; and significant factor in improving internal control and efficiency. Though accountability and transparency were identified as important outcome of corporate governance, the regression ANOVA was however not significant. It was thus recommended that greater awareness need to be created in SMEs of the usefulness of giving consideration to the issue of corporate governance in order to earn the dividend therefrom.

KEYWORDS: Governance, Accountability, Transparency, Efficiency, Management

INTRODUCTION

Corporate governance has become a tropical issue because of its immense contribution to the economic growth and development of nations. Corporate governance is a field in managerial economics that describes the way a company is managed, monitored and held accountable (Gilliant and Starks, 1998). Generally, the constituent and instrument of corporate governance are the policies, rules, processes, practices, programs and institutions used in administering, directing and controlling the operations and affairs of an organization. Therefore, the elaborateness, clarity, formality and the degree of compliance with these elements and plans reflect the extent to which an organization is likely to experience good corporate governance. Corporate governance hinges on a clear cut process of directing and controlling the whole essence of companies or business corporations based on the principles of integrity, honesty, transparency and accountability in order to satisfy the interests of all stakeholders.

Corporate governance is a way of life and not a set of rules. It is more of way of life that necessitates taking interest in every business decisions. A key element of good corporate governance is transparency in projects through a code of good governance which incorporates a system of checks and balances between key players- board of management, auditors and shareholders (Jayashree, 2006). As a matter of fact, corporate governance in Nigeria and many African countries is still at lower ebb or at a rudimentary stage as espoused by Wilson (2006). The scholar submits that corporate governance in Nigeria is at a rudimentary stage and only 40% of companies (banks inclusive) quoted on the Nigerian Stock Exchange have recognized codes of corporate governance in place and poor corporate governance was one of the major factors in virtually all known instances of distress experienced by the country's financial institutions. A common thread that ran through these monumental corporate failures was the poor corporate governance culture, to wit, poor management, poor regulation and poor supervision (Wilson 2006).

It is therefore highly essential to give a clear picture of what corporate governance is all about for better understanding and adherence to its basic principles by all players involved. In Nigeria, effective corporate governance is considered as ensuring corporate accountability, enhancing the reliability and quality of financial information. It is imperative to understand that the proper implementation of good corporate governance does not necessarily guarantee success of the organization.

Studies carried out so far on the subject of corporate governance in Nigeria have concentrated exclusively on firms quoted on the Nigerian Stock Exchange (Adenikinju & Ayorinde, 2001; Babatunde & Olaniran, 2009; Kajola, 2008; Sanda, Mikailu & Garba, 2005). Although the basis for this choice is understandable, it however creates a problem of exclusion, and forecloses a comprehension of the corporate governance behaviors and outcomes of private medium and large firms which make up the bulk of organizations across the various business sectors of Nigeria.

The reality today is that, SMEs may appear small in size but likely many of them have potentials for growth and become big entities in future. The Code of Best Practices for Corporate Governance in Nigeria was adopted only in 2002, and revised in 2009 (Olajide, 2010). While this may partly explain the relative infancy of corporate governance entrenchment in Nigerian firms, it however sharpens the need to examine the extent to which the adoption of governance codes contributes to Small and Medium Sized Enterprises (SMEs). SMEs in Nigeria form large segment of business activities. Generally, they take the form of private companies owned by small number of shareholders. Often have less than 100 employees. Such companies are usually family-owned run by family members where the authorities and powers are generally held by an individual normally the major shareholder. For that reason the owners commonly consider them as running their personal properties.

This paper therefore is poised to examine the how corporate governance in SMEs would influence the operational management.

The aim of this paper- Corporate governance and management of small and medium scale enterprises in Nigeria was scrutinized by allusion to two specific objectives:

i. assess whether corporate governance has successfully enhance the accountability and transparency of SMEs
ii. ascertain whether corporate governance provides strategies for effectiveness in SMEs operations

These objectives were examined by reference to two research questions:

i. To what extent does corporate governance enhance the accountability and transparency of SMEs?
ii. How has corporate governance provided strategies for effective operations in SMEs?

Two Hypotheses were formulated: $H_{01:}$ Corporate governance has not successfully enhanced accountability and transparency of SMEs; and $H_{02:}$ Corporate governance do not provides strategies for effectiveness in SMEs operations.

The remaining sections of this paper are on literature review, methodology, analysis of result, discussion and conclusion and recommendations

LITERATURE REVIEW

There is no universally accepted definition of corporate governance despite the fact that the utility of definitions is invariably exaggerated.

Zabihollah (2009), defines corporate governance as the process affected by a set of legislative, regulatory, legal, market mechanisms, listing standards, best practices and effort of all corporate participants including auditors and financial advisors which create a system of checks and balances with the goal of creating and enhancing enduring and sustainable value while protecting the interest of external environment. Corporate governance is also said to be a process, customs, policies and institutions aliening the way company is directed, administered or controlled. Al-Faki, (2006) posit that corporate governance is a system by which business organizations are directed and controlled. According to him, corporate governance structure specifies the distribution of rights and responsibilities among different participants in different organizations such as the board, managers, shareholders and other stakeholders; and spells out the rules and procedures for making decisions on corporate affairs. Wilson (2006) defines corporate governance as the manner in which corporations are directed, controlled and held to account with special concern for effective leadership of the corporations to ensure that they deliver on their promise as the wealth creating organ of the society in a sustainable manner.

In summary, good corporate governance structure encourage companies to be conscientious and forward looking, to create value and provide accountability.

Corporate Governance and Disclosure and Transparency

Corporate governance ensures that timely and accurate disclosure is made on all material matters regarding the corporation including financial situation, performance, ownership and governance of the company

i. Disclosure should include but not limited to material information on
    - The financial and operating results of the company
    - Company objectives
    - Major share ownership and voting rights
    - Remuneration policy for members of the board and key executives, and information about board members including their qualification, selection process, other company directorship and whether they are regarded as independent by the board
    - Related party transactions
    - Foreseeable risk factors

- Issues regarding employee and other stakeholders
- Governance structure and policies, in particular the content of any corporate governance code of policy and the process by which it is implemented.

ii. Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non financial disclosure

iii. An annual audit should be conducted by an independent, competent and qualified auditor in order to provide an external and objective assurance to the board and shareholders that the financial statement fairly represent position and performance of the company in all material respect

iv. External auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit

v. Channel for disseminating information should provide for equal and cost efficient access to relevant information by users

vi. the corporate governance frame work should be compensated by an effective approach that addresses and promote the provision of analysis or advice by analyst, brokers, rating agencies and others that is relevant to decisions by investors, free from material conflict of interest that might compromise the integrity of other analyst or advice.

Essential Imperatives of Corporate Governance

Corporate governance in business is so strategic that it has been adjudged the imperative of the survival of companies in the 21st century by many business and financial experts for the following reasons as espoused by Jayashree (2006):

i. Adherence to the practice of good corporate governance enhances the efficiency of corporate organizations;

ii. Good corporate governance provides stability and desirable growth to the company.

iii. Effective corporate governance reduces perceived risks, consequently reducing cost of capital;

iv. Good corporate governance system demonstrated by adoption of good corporate practices and ethics builds stakeholders' confidence;

v. Adoption of corporate governance promotes stability, long-term sustenance of stakeholders relationship; and

vi. Potential shareholders aspire to enter into a relationship with enterprises whose corporate governance credentials are exemplary.

Management of SMEs

Poor management skills in SMEs are recognized as an acute problem. Managerial weakness is key factor in the failure of small and medium sized businesses. The success of SMEs is often largely related to the performance of management (Heraty, 2005). There is a need for entrepreneurs to acquire the necessary management expertise to ensure the future survival of the SME sector. The owners and managers of SMEs who have inadequate management knowledge and skills cannot operate effectively and efficiently enough to yield better than marginal results. This implies that these SMEs might be successful in the short run, but will not be in a position to realize their full potential over the long term (Dzansi, 2004). SMEs are crucial for economic growth and development, as well as employment creation. In order to ensure the full development of the SME sector in the economy, proper management of SMEs is required. The success of entrepreneurial ventures will lead to improved standards of living and reduced levels of poverty in underdeveloped communities.

In Nigeria where SMEs play a key role in the economy in terms of employment creation and economic growth and development, the success of SMEs becomes critical, hence the need for their proper management. However, providing the necessary management skills for SMEs requires a clear understanding of these skills which are necessary for the smooth and profitable running of small businesses.

Management for Efficiency and Effectiveness

Effectiveness and efficiency deal with the activities and performance of individuals. Efficiency means doing the task correctly and refers to the relationship between inputs and outputs. Efficiency seeks to minimize resource costs. Effectiveness means doing the right task towards goal attainment. Efficiency is achieved by both minimizing inputs (labour, land and capital) and maximizing productive outputs (Robbins & DeCenzo, 2005; Hellriegel et al., 2004).

The success of an organization depends on how effective and efficient it is managed. Organizational objectives, such as profitability, are achieved through motivating employees to improve their level of service delivery to both the internal and external customers of the organization.

Theoretical Consideration

Stakeholder theory stresses the importance of all parties who are affected, either directly or indirectly, by a firm's operations. Stakeholder refers to any party that has a stake in the company, other parties such as employees, bankers, customers, suppliers and the like can also be stakeholders (Wearing, 2005). The Board must understand that they are representatives of all important stakeholders in the firm. This includes all those whose investments in physical or human capital are at risk. Thus individuals who explicitly represent critical stakeholders should be put on the board. The theory as noted by Friedman (2006) states that the organization itself should be thought of as grouping of stakeholders and the purpose of the organization should be to manage their interests, needs and viewpoints. This stakeholder management is thought to be fulfilled by the managers of a firm. The managers should on the one hand manage the organisation for the benefit of its stakeholders in order to ensure their rights and participation in decision making and on the other hand, the management must act as the stockholder's agent to ensure the survival of the firm to safeguard the long-term stakes of each group.

The implication of this theory to this study is that corporate governance should be geared toward meeting the needs of the stakeholders through proper management.

METHODOLOGY

A mixed method approach was used to incorporate both qualitative and quantitative methods of data collection and analysis. This approach aids in the validation of results through triangulation by combining different type of data collection. The cross-sectional survey method was used in carrying out this research.

A sample of 500 SMEs owners was considered in this study; this represents the entire SMEs owners in Lagos State. According to rules of thumb, Roscoe (1975) as cited in (Cavana, Delahaye and Sekaran, 2001) suggested that sample size which is more than 30 and less than 500 are appropriate for the research. Using a combination of purposive and convenient sampling techniques, 500 SMEs owners from four selected parts of Lagos State filled the questionnaire. The questionnaire is in close and open ended format, with Likert scale format. Scoring was based on four point Likert scale of strongly agree, agree, disagree, and strongly disagree representing 1 to 4. A mean score of 1.0 - 2.0 is high while a mean score above 2.0 and below 3.0 is average while above 3.0 - 4.0 is low mean scores.

The instrument was validated appropriately and had a reliability level of Cronbach's Alpha 0.915. This was considered good since the score obtained has exceeded the minimum alpha value of 0.7. According to the rules of thumb about Cronbach's Alpha coefficient size, the higher the Cronbach's Alpha means the higher the reliability coefficient (Zikmund, *et al.*, 2010).

RESULT

A total of 491 copies of the questionnaire were received from the respondents, representing 98.2% valid response. A descriptive statistics was analysed based on percentages and of mean scores. The inferential statistics of one-sample test, regressions -ANOVA was used to test the hypothesis with result of findings presented and analysed.

From the descriptive statistics on duration in terms of existence of the firm, a larger percentage, 39.1% of the respondents affirmed that their company has been in operations between 5 and 10 years while about 31% had been in operation for over 10 years (Table 1) This implies that majority of the respondents could come to terms with corporate governance.

Table 1: For how long has your company been in operations

Years	Frequency	Percentage
Less than five(5)years	142	28.9
Between 5 and 10 years	192	39.1
Between 11 and 15 years	54	11.0
Between 16 and 20 years	76	15.5
Over 20 years	27	5.5
Total	491	100.0

On corporate governance and accountability & transparency of SMES, Ten (10) factors were identified from previous studies and examined. The measurement of each factor is presented in Table 3. From the table, corporate governance brings transparency to SMEs and essential for internal control system had the highest (best) mean scores. All the items examined presented high mean scores signifying respondents' acceptance that Corporate Governance influences Accountability and Transparency in SMEs.

Table 3: Result on Mean scores of Corporate Governance and Accountability and Transparency of SMEs

	N	Mean Score	Rank (worst-best)
Corporate governance check corruption in SMEs	491	1.76	1
Corporate governance helps to militates against the financial fraud in an organization	491	1.76	1
Corporate governance establishes rules and procedures	491	1.66	2
to manage and run the enterprise	491	1.53	3
Corporate governance ensure business ethics among SMEs	491	1.44	4
Corporate governance improve SMEs through their accountability and transparency	491	1.41	5
Good governance ensures corporate values and clear lines of responsibility	491	1.38	6
Corporate governance brings about better system of internal control to SMEs	491	1.35	7
Corporate governance set a system of checks and	491	1.34	8
balances	491	1.28	9
Good Corporate governance is essential for internal control system			
Corporate governance brings transparency to SMEs			

Source: Author, 2014

The study examined corporate governance and strategies for SME's effective & efficient operations on 10 factors similarly identified in previous studies as presented in Table 4. Good corporate governance promotes strategic guidance of SMEs for effective monitoring of their environment; and significant factor in improving SMEs growth and efficiency, had the highest mean scores (1.28 and 1.37 respectively) of strong acceptance.

Table 4: Mean Scores of Corporate Governance and Strategies for SMEs Effective and Efficient Operations

	N	Mean Score	Rank (worst-best)

Good governance does not guarantee business success but help long-term success	491	1.92	1
Corporate governance help owner of SMEs to focus more on strategic directions and expansion of business	491	1.88	2
Corporate governance is useful and necessary to SMEs for carrying out goals and objectives	491	1.69	3
SMEs adopt good corporate governance standards attract long-term plans	491	1.68	4
Corporate governance provides structure for effective operation of SMEs	491	1.62	5
Corporate governance helps SMEs to have strategic vision	491	1.57	6
Corporate governance provides a well-defined and acceptable division of responsibilities to SMEs	491	1.56	7
Corporate governance enable SMEs to have clear strategies for efficient operation	491	1.49	8
Corporate governance is a significant factor in improving SMEs growth and efficiency	491	1.37	9
Good corporate governance promotes strategic guidance of the SMEs for effective monitoring of their environment	491	1.28	10

Source: Author, 2014

Hypotheses formulated were tested. The first was $H_{0:}$ Corporate governance has not successfully enhanced accountability & transparency of SMEs. A regression ANOVA was applied:

Table 5: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.375	3	.125	21.205	.893(a)
	Residual	56.125	92	.610		
	Total	56.500	95			

a Predictors: (Constant), accountability and transparency
b Dependent Variable: Corporate governance

The ANOVA table, revealed that with F value of 21.205 ($p < 0.05$), the regression value is not significant. This implies that corporate governance has not successfully enhanced accountability and transparency in SMEs. The null hypothesis was not rejected.

Hypothesis Two: $H_{0:}$ Corporate governance do not provide strategies for effectiveness in SMEs operation was tested using one sample t-test with result presented in Table 6.

Table 6: One-Sample Test of corporate governance provides strategies for effectiveness in SMEs operations

Variables	N	Tcal	df	P-value	Mean	Sig.
Corporate governance provides strategies for effectiveness in SMEs operations	96	21.916	9	0.01	1.552	>.05

Tcab (21.916, 0.05) df= degree of freedom Sig= significant level Result is significant

This result showed the T- value (Tcal) =21.916 was greater than P-value (P<.001) and therefore significant under 0.05 levels with 9 degrees of freedom. From this t-test result, the null hypothesis of corporate governance does not provide strategies for effectiveness in SMEs operation was rejected.

DISCUSSION

The study revealed that good corporate governance promotes strategic guidance of SMEs for effective monitoring of their environment; and significant factor in improving SMEs growth and efficiency. The study showed respondents claim that corporate governance can yield transparency in operations however, the regression ANOVA confirmed that corporate governance has not successfully enhanced accountability and transparency of SMEs.

Response to the open-ended questions revealed that some SMEs are not embracing corporate governance due to lack of awareness regarding corporate governance. Some are of the opinion that the lack of awareness among SMEs could result in increased financial difficulties, worsened relationships between SMEs and financial institutions, and decrease in public confidence. Also, the cost for implementing corporate governance was acknowledged to be too high as compared to its benefits. Nevertheless, the hypothesis two tested confirmed that corporate governance provides strategies for effectiveness in SMEs operation.

CONCLUSION & RECOMMENDATIONS

Corporate governance and management of SMEs was examined with evidence in support of its ability to bring effectiveness and efficiency. Many SMEs had no value for corporate governance framework. Probably that is why corporate governance had no significant effect on accountability and transparency.

The ranking of pertinent factors of corporate governance yield showed that it can set a system of checks and balances, effective internal control system transparency to SMEs.
It is therefore recommended that awareness should be created on the need of corporate governance even at SMEs level as the activities of these enterprises affect the economy and several stakeholders.

Facility and welfare of SMEs in Nigeria are mainly regulated by the Ministry of Micro, Small and Medium Scale Enterprises, whereas the business forms are under the control of Ministry of Corporate Affairs. Since corporate governance is mainly an issue pertaining to business form, efficient and sustainable management it is recommended that the corporate governance of SMEs should be handled by the Ministry of Corporate Affairs and should be a voluntary action on their part; as there should not be framing new regulations for that purpose. But there is a need to creating awareness within the sector for adopting corporate governance and its consequent benefits and provides strategies for effectiveness in SMEs operation.

Limitation of the study

The sample size of this study is a limitation. There was lack of geographical coverage to seek for wider range of data as the data is only obtained from small and medium business owners in four areas only of Lagos State. Hence, this sample size might not accurately represent all the SMEs owners in Lagos.

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