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DEPARTMENT OF BUSINESS ADMINISTRATION

CORPORATE GOVERNANCE PRACTICES IN SMALL AND MEDIUM ENTERPRISES AND ITS IMPACT ON FINANCIAL PERFORMANCE- A STUDY OF REGISTERED SMES IN GHANA.

MASTERS THESIS

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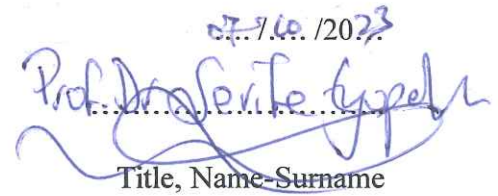

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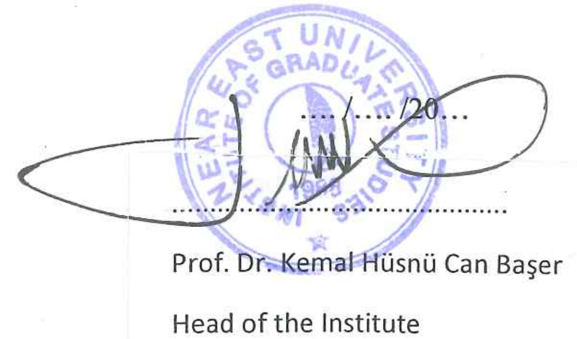

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Declaration

I hereby declare that all information, documents, analysis and results in this thesis have been collected and presented according to the academic rules and ethical guidelines of Institute of Graduate Studies, Near East University. I also declare that as required by these rules and conduct, I have fully cited and referenced information and data that are not original to this study.

SETH ANSAFUL

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Seth Ansaful

Abstract

Corporate Governance Practices in Small and Medium-size Enterprises and Its Impact on Financial Performance.

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In every economy, which Ghana is no exception, it is well known that Small and Medium Enterprises play major role in the development of the economy. The purpose of this study is aimed at examining the impact of corporate governance on financial performance of SMEs in Accra, Ghana.

The study is quantitative in nature and the respondents of the sample size was reached using convenient sampling method approach. The questionnaire was administered on 367 owners/managers of SMEs in the greater Accra region out of which 324 was fully completed. The multiple regression analysis was adopted to examine the relationship.

After data was analyzed, the result shows that all the four main corporate governance principles namely accountability, responsibility, fairness and equity and transparency significantly and positively affect the financial performance of SMEs in Ghana. At the end of the analysis which shows corporate governance positively affects SMEs financial performance, the study recommends that owners of SMEs should involve various stakeholders when taking decisions to gather their views and ideas (fairness and equity principle). Owners of various SMEs should be transparent and accountable to various stakeholders as this provides trust and boost confidence of investors (Transparency and Accountability principle). The managers/owners of SMEs should act responsibly as their actions go long way to affect the financial performance of their business (Responsibility principle).

Key words: responsibility, transparency, fairness and equality, accountability, corporate governance

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List of Abbreviations

FACGC: Financial Aspect of Corporate Governance Committee

SEC: Securities and Stock Exchange

SMEs: Small and Medium- sized Enterprises

IFC: International Finance Corporation

CEO: Chief Executive Officer

GDP: Gross Domestic Product

OECD: Organization for Economic Corporation and Development

UNIDO: United Nations Industrial Development Organization

GSS: Ghana Statistical Service

NBSSI: National Board for Small Scale Industries

AGI: Association of Ghana Industries

CORPORATE GOVERNANCE PRACTICES IN SMALL AND MEDIUM-SIZED ENTERPRISES AND ITS IMPACT ON FINANCIAL PERFORMANCE: A STUDY OF REGISTERED SMALL AND MEDIUM ENTERPRISES IN GHANA.

CHAPTER I

Introduction

There have been many studies that has been conducted in corporate governance around the globe. The focus of regulators on firms' practical corporate governance standards has increased. Good corporate governance, according to these authors (Dzingai & Fakoya, 2017; Hoque, 2017), lessens the likelihood of scandals, leads to long-term viability and inspires faith among investors. This ensures proper accountability and transparency. Good corporate governance practices and principles brings value and ensure accountability which boosts investors' confidence (Amoako, 2017). They are devoted to fostering positive relationships between all parties involved (IFC, 2007). Corporate governance is now practiced around the globe with more attention being paid to large firms. Unfortunately, SMEs have received microscopic study.

Corporate governance has become popular, and corporate governance definitions are developing, making it challenging to settle on one specific definition. Different authors have given different definitions. The Financial Aspects of Corporate Governance Committee (FACGC) defines corporate governance as how a company is run and directed (Veldman & Willmott, 2016). The National Association of Corporate Directors describe governance as the quality of making sure that strategic goals and plans are in place and that proper systems are needed to achieve those objectives while also ensuring that the structures are in place to maintain corporate reputation and responsibility to its various constituencies (Steiner, 2010). Companies are governed by their Boards of Directors (Ayuso & Argandona, 2009).

When directors fail to perform their duties, owners can sue them, and this matter is becoming alarming. Corporate governance is concerned with how fund suppliers are protected to ensure they receive an open report and investment returns (Tricker & Tricker, 2015; Shleifer & Vishny, 1997).

The Ghana Securities and Exchange Commission defined corporate governance as how corporate organizations are administered and operated (SEC, 2002; BK Agyei-Mensah, 2016).

The responsibilities and authority of the company's management are laid out in detail. Shareholders appoint managers, board members, and other stakeholders (Brennan, 2006) to oversee the administration of their investments on their behalf. There must be reliable systems to report problems openly if there is hope of restoring trust between management and shareholders. Research into corporate governance challenges is expanding especially for publicly traded corporations with a robust global presence. Numerous studies have been conducted in the aspect of impact of corporate governance on performance among small and medium-sized enterprises (Jansson et al., 2017; Hakimah et al., 2019; Elmagrhi et al., 2017), but the vast majority of these studies is been conducted in advance economies. Therefore, broadening the research to include developing nations like Ghana, Nigeria, Egypt, and Cameroon is essential.

Previous papers concerning corporate governance among SMEs in advance economies has examined the effect of various practices on financial performance. These include size of the board, composition of the board, independency of the board, duality of CEO, and family relations businesses (Abor & Biekpe, 2007; Lappalainen & Niskanen, 2012; Puni & Anlesinya, 2020). Corporate governance concepts and their effects on small and medium-sized enterprise (SME) performance in developing nations need additional research. To that end, researchers analysed how a Ghanaian corporation operates under generally accepted corporate governance principles. Adjabeng and Osei (2022) and Muriithi (2017) noted the significance of small and medium-sized businesses to Ghana's economy. In Ghana, SMEs dominate the business landscape. About 80% of all jobs in Ghana are supported by the informal sector, accounting for 60% of the GDP (Ghana Statistical Service, 2019). It is common knowledge that publicly traded companies are

obligated to uphold ethical standards for good corporate governance. However, not all SMEs in underdeveloped countries like Ghana follow these corporate governance regulations. Possible causes include a need for more oversight or the desire for stricter regulation. No matter the size of an organization, it needs good management (Martela, 2023).

Contextual difficulties have arisen from disagreements over what constitutes a small and medium-sized entities. SMEs have been defined in various ways by various authors. Size, number of workers, capital structure, legal position, and manufacturing methodology are all cited as criteria by some. The meaning of SMEs by size differs among authors. Some researchers classify SMEs by capital assets, labor skills, and turnover level. SMEs are classified as those whose assets, revenues, and number of employees are within a certain level (Rodríguez-Gutiérrez et al., 2015; Zaridis & Mousiolis, 2014).

SMEs are defined differently in each nation. Sometimes, specific requirements are considered in defining SMEs, including the mode of operations and the industry category it belongs to. GSS defined SMEs in Ghana as any business with one to five employees as micro, six to thirty employees as small, thirty-one to one hundred as a medium, and above one hundred as large enterprises (Addo, 2018; Sappor et al., 2023).

According to the Venture Capital Fund Act 2004 (Act 680) in Ghana, a small and medium-sized enterprise (SME) is any business, project, enterprise, or activity that employs 100 or fewer people and whose total assets, excluding real estate, do not exceed one million Ghanaian cedis (Atogenzoya et al., 2014; Asunka, 2016).

SMEs contribute significantly to Ghana's economy in many ways, including job creation, value addition, and corporate social responsibilities (Le et al., 2021; Amoah et al., 2022, Martinez-Conesa et al., 2017). Most establishments in Ghana are small and medium enterprises (Ackah & Vuvor, 2011). The government of Ghana recognizes the importance of SMEs hence it has set up institutes to advise them.

To foster their development, these establishments offer advice in the form of courses, funding, and other incentives. This means SMEs are important in developing Ghana's economy and need more attention. Therefore, research in the context of SMEs is

important. Some issues SMEs face in Ghana include access to capital, technological advancement, and a ready market for their product (Adjabeng & Osei, 2022; Ackah & Vuvor, 2011; Amoah & Jibri, 2020). According to Gockel and Akoena (2002), SMEs have struggled to grow because of managerial incompetence.

In Ghana, large and small firms must register their businesses with the Ghana Registrar General Department. When registered, businesses are expected to follow the rules and codes of conduct such as good corporate governance practices and principles.
Generally, the ownership-manager relationship problem has made associating corporate governance with larger firms challenging. The owners trust managers and expect them to be transparent in all their dealings. Most SMEs have slight separation among managers and shareholders which limits the agency problem. This study will examine common corporate governance principles and how they affect performance among SMEs.

Overview of the Study

The principles and practices of good corporate governance are essential to a company's success and longevity. Protecting shareholders interest together with other fund providers interest is central to good corporate governance (Bai et al., 2004). Adhering to sound corporate governance will reduce corporate scandals, bring about sustainability, and boost investors' confidence.
Corporate governance ensures accountability and transparency prevail in an organization to provide certainty to fund providers. Directors of companies are liable for the affairs, oversight, monitoring, and strategic decision-making. Corporate governance serves as a framework that guides conducts of entities, practices, and decision-making. These frameworks can be achieved through corporate governance principles such as fairness, accountability, responsibility and transparency.

Statement of the Problem

Practicing corporate governance is vital in every establishment, therefore, firms are obliged to comply to serve as checks and balances. Corporate governance is now observed

globally and it has helped promote and improve firms' performance and avoid corporate scandals.

It is argued that most SMEs must comply with corporate governance principles and practices especially in developing countries. These enterprises believed that since they do not owe anybody the responsibility for accountability, they manage their affairs without recourse to proper codes of ethics and practices. SMEs in underdeveloped economies are viewed of facing broad range of problems. The common of these problems is the ability to secure the necessary capital to fund their business operations (Sacerdo, 2005; Biekpe, 2004). The problems faced by these SMEs in underdeveloped economies can be as a result of poor management, poor accountability, unfair treatment of stakeholders, and lack of transparency (Akoena & Gockel, 2002).

The issues surrounding the management of these SMEs in under developed economies are characterised by owner/managers phenomenon. Most of these establishments are managed and controlled by the owner and most often the workers of most of these establishments are family related to the owner.
These family type of businesses feels they do not need to account to anyone and therefore most of them at times fail to adhere to corporate governance practices and principles.
The issues of incompetency among managers and difficulty in acquiring the needed capital among SMEs in Ghana can be solved by adherence to sound corporate governance.

Although so many studies have been done in connection with corporate governance in relation to big industries (Black, 2001, Klapper & Love, 2004), there are other sections of corporate governance yet to be dealt with. Example is the adherence of corporate governance by corporate bodies in under developed economies. There has been a worldwide acceptance that corporate governance can strengthen SMEs performance but the attempt to explore the impact of corporate governance on SMEs are tried and error factors which fit the studies of big industries which has been used to study that of SMEs which uses the theory of agency as a basis (Biekpe & Abor, 2007, Hamad& Karoui, 2011).

All these studies have not focus on the impact of corporate governance principles on financial performance of these SMEs. The application of corporate governance principles on financial performance and its implications is the missing area this study will deal with. This study will look into the matters of corporate governance principles and how these principles affect SMEs performance in Ghana.

Good corporate governance contributes significantly to the firm's performance by serving as being a check and balance. It is highly recommended that all firms, whether small or large need governance to steer their affairs. This study will therefore examine the effect that corporate governance principles such as accountability, fairness, responsibility, and transparency have on SMEs' financial performance.

Purpose and Aims of the Study

The research objectives of this study are:

1.To ascertain corporate governance's impact on SMEs in Ghana financial performance.

2.To investigate the impact of accountability on the financial performance of SMEs in Ghana.

3.To investigate the impact of transparency on the financial performance of SMEs in Ghana.

4.To investigate the impact of fairness on the financial performance of SMEs in Ghana.

5.To investigate the impact of responsibility on the financial performance of SMEs in Ghana.

Importance of the study

This study will add to the knowledge of corporate governance among Ghana's SMEs. Large publicly traded corporations have been the most targeted study of corporate governance. Bennett and Robson (2004) and Eisenberg et al (1998) are among the few authors that their studies focused on small and medium enterprises (SMEs). Due to the nature of SMEs contributions towards the development of an economy, studies on

corporate governance for small and medium enterprises (SMEs) in developing nations like Ghana is essential.

Variables of corporate governance like size of the board, composition of the board, independence of the board, CEO duality, and family ownership have been the studies focus in under developed economies and their impact on performance. In this investigation, the study will examine whether or not corporate governance principles affects SMEs in Ghana financial performance. The conclusions will be helpful to SME owners and managers and will serve as a guide for them as they adhere to these basic principles of corporate governance.
Future researchers will benefit from this paper's analysis as they look into other issues concerning SMEs' corporate governance. The findings will also support decision-making by policymakers.

Limitations of the Study

The fundamental constraint on this research is its duration. Time restraints necessitate limiting the scope of the research to small and medium enterprises (SMEs) in Accra, Ghana.
The study will focus on the decision-makers in Ghana's small and medium enterprises (SMEs) for the responses. This population will be considered because they better grasp the issues at hand. Accountability, fairness, responsibility, and transparency are the basic principles of corporate governance that will be studied due to the nature of businesses in Ghana.

Majority of businesses in Ghana are in the form of small and medium size. Conducting research on this huge business establishment will take long time to complete and it is also costly. Due to these challenges, the researcher limited this study to a single region in Ghana. Future researchers should explore other parts of the region to find out what result will come out of their studies.

This study targeted Accra as the study area and not all SMEs in Accra were reached. There are majority of SMEs which the researcher was not able to contact them and therefore, the study was limited to only few ones which were available during the administration of the questionnaires.

During the administration of the questionnaire, some of the SMEs the researcher approached were reluctant to respond and some also did not respond at all. This made the research being limited to only few ones who were ready at that time. The other factor which limited the research is that, some of the owners of SMEs were not understanding the whole concept after explaining to them the purpose of the study. Some participants also demanded for cash in kind as a way of helping to answer the questionnaire. In all, the study was limited due to the above constraints.

Definition of terms

Responsibility Principle: The principle of responsibility of corporate governance refers to making sure that corporate activities are organised with compliance with the relevant legislation and ethical values (TÜSIAD, 2002). It also refers to activities performed by business administrators on behalf of a legal entity performed in accordance with legal regulations and legislation, articles of association, company policies, and social and ethical values of society. It also refers to the auditability of these principles (Pamukcu et al 2011).

The principle of responsibility includes the creation and implementation of proper actions in accordance with law and legal regulations, as well as decisions and practices in accordance with the value system
of the society (Engin & Abdioglu, 2009).

Fairness and Equality Principle*:* The principle of fairness refers to the principle of corporate governance that ensures that the rights of shareholders are protected and that

both minority and majority shareholders including that of foreign shareholders are treated fairly.

Accountability Principle: The accountability principle refers to being transparent and showing openness in all the operations of business activities. Businesses should be transparent to all stakeholders involve in their daily activities as this boost investors' confidence.

Transparency: This refers as a managerial principle which focuses on informing the stakeholders about the firm's activities, risks and plans in line with the business strategy. It also refers to an entity's desire to provide clear information to stakeholders, mainly owners. Provision of financial and non-financial information is key to making decisions by investors.

In the OECD report, transparency was defined as the environment in which the objectives of policy, its legal, institutional, and economic framework, public decisions etc are provided to the public in a comprehensible, accessible and timely manner (OECD, Principles of Corporate Governance,2004).

Corporate Governance*:* Corporate governance has become popular worldwide and the definitions for corporate governance are developing making it difficult to settle on one definition. The Committee on Financial Aspects of Corporate Governance (CFACG) defines corporate governance as how a company is run and directed (Veldman & Willmott, 2016).

Ethical Consideration

All ethical guidelines were followed in conducting the research. Firstly, I applied for ethical approval regarding the ethical conduct of the research before a sample size was engaged in the study. This was done to ensure that the research was conducted to meet the required academic standards. Ethical considerations necessitate that the results of this

study remain private and not be released to the general public without the permission of the participants.

Contents of the Study

The study has six (6) chapters (1- Introduction, 2- Literature Review, 3- Methodology, 4- Results and findings 5-Discussions, and 6-Conclusion and Recommendations).
Chapter one gives basic details and information through an introduction, statement of the problem, aims of the study, ethical considerations, and limitations.

Chapter two reviews literature on previous studies which have relations to this study and establishes the gap.
Chapter 3 explains the methodology used in the study for data collection and analysis.
Chapter four consists of the analysis of the data collected and the results and findings. Chapter five is the discussions of the results and chapter 6 contains the conclusion of the study and recommendations for further studies and future referencing.

CHAPTER II

Literature Review

Theoretical Framework

Corporate Governance

Companies rely heavily on sound corporate governance practices to guide and control their operations. This is why numerous research projects in Ghana and elsewhere have focused on it (Ozili, 2020; Musah et al., 2019; Osei et al., 2019; Musah et al., 2022). More scandals and reports of manipulation by firms around the world have increased interest of corporate governance.

Each definition of corporate governance has yet to gain widespread acceptance. There is a plethora of terms that authors have proposed for describing corporate governance. As described by Mayer (1997), corporate governance is the system of checks and balances in place to ensure that the interests of shareholders and company management are being met. The public's view of corporations' legal duties and the processes within corporations themselves are two major areas of study (Deakin & Hughes, 1997). According to Keasey& Short (1997), an organization's structures, processes, cultures, and systems affect its effectiveness. Management, leadership, and direction are all aspects of corporate governance (Clarke & de la Rama, 2008).

The Organization for Economic Cooperation and Development (OECD) promotes corporate governance as a regulatory and advisory structure. OECD gave the meaning of corporate governance as "the framework within which organizations establish strategies for achieving their goals and measure their performance against these strategies and benchmarks for excellence" (OECD, 2003). One of the critical objectives of excellent corporate governance is maximizing investment returns (Shleifer & Vishny, 1997).

The fundamentals of corporate governance are to solve problems of agency between management and shareholders or among majority and minority shareholders (Inessa Love, 2010). In this sense, the objective of good corporate governance is to safeguard the

investments of fund providers. Investors are satisfied since their money is being appropriately managed.

A greater pie (profit) should result from more robust governance since this would suggest that investors' money was used better. That is to say, improved corporate governance has the capacity of boosting productivity and raises the company's bottom line.

Colley et al. (2005) note that corporate governance contributes significantly to a company's success by helping management monitor and evaluate risks, keep expenses low, and maximize productivity. Companies with solid corporate governance have the frameworks in place to maximize their profits.

Corporate governance focuses primarily on the following key areas: board size; managerial competence and skills; CEO duality; board independence; and board composition. Researchers have found that these elements substantially impact the performance of businesses. Some recent works include those by Ofoeda (2017), Asunka (2017), Ansong (2015), and Oppong et al. (2016). With reference from previous study, SMEs in the United Kingdom benefit from larger boards (Afrifa & Tuaringana, 2015). This study will help close a knowledge gap by examining why further studies on SME success and adherence to corporate governance standards are needed. Berle and Means's (1991) research have been read by many. The Modern Corporation and Private Property are the cornerstones of most academic investigations into corporate governance. The research elucidated agency difficulties in modern businesses with several owners and departments.

Since numerous corporate governance strategies have been developed, numerous studies have been done to compare and contrast them.

In a typical business arrangement, the provider of the funds hires an agent to handle operations on his or her behalf. Ownership is distinct from managerial control. The issue of agency arises as a result. According to Mallin (2016), a company's stockholders serve as principals, its managers as agents, and its directors as overseers.

Theories of Corporate Governance

Agency Theory

In the field of corporate governance, agency theory is the ultimate standard. Because of tensions between firm owners and executives, agency theory is a common topic in corporate governance studies (Musah et al., 2022; Afrifa & Tuarigana, 2015; Ofoeda, 2017). The agency problem, or conflict among corporate shareholders and management, is the subject of many mitigation measures (Chrisman et al., 2004).

Because the principal and the agent have competing priorities, the agent will refer to this cost as a bonding premium, while the principal will call it a monitoring cost (Kyereboah-Coleman, 2007). Jensen and Meckling (1976), states that the principal selects an agent to carry out the principal's instructions. The principal gives the agent the authority to make decisions on his behalf.

An efficient governance structure is necessary to safeguard the interests of all stakeholders because of the gap between ownership and management. It could have been clearer whether or not management was looking out for business interests. The issue that arises from this is how to motivate management to prioritize shareholder returns. Corporate boards must be established since the agency problem necessitates communication between owners and managers (Kyereboah Coleman, 2008). Agency theory suggests that conflicts between a principal and an agent can be mitigated by monitoring mechanisms like directors as part of corporate governance. Managers should be seen as 'agents' of the company's owners and checks and balances should be in place to prevent abuse of power.

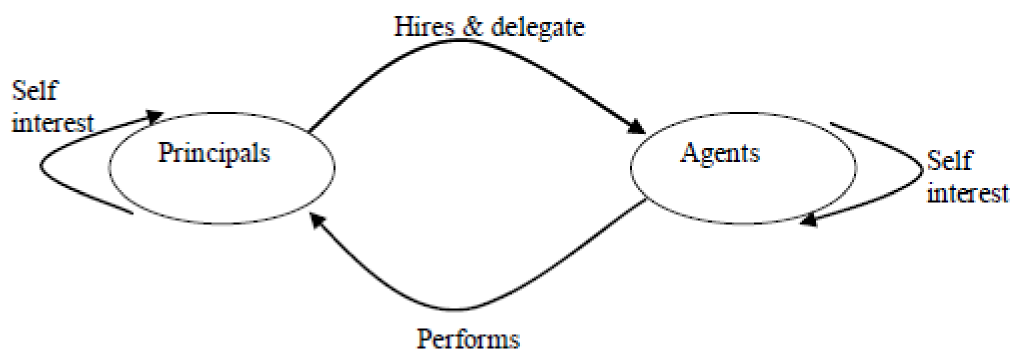
Principals (the company's owners) and agents (the company's directors and managers) are defined by agency theory. According to this view, firm owners delegate decision-making authority over operational matters to a select group of individuals known as managers. This is done in the hope that management will make decisions that benefit the company's owners. Managers do not necessarily prioritize the interests of their shareholders. Managers may be self-interested and make decisions that benefit themselves rather than the owners.

Agency theory suffers most from a communication breakdown between shareholders and corporate executives.
The study of agency theory has significantly impacted our understanding of and approaches to resolving issues between shareholders and management. Despite its widespread influence, it has been met with some pushback. First, one can see that inadequate management inside corporations is fundamental to agency theory (De Villiers & Hsiao, 2017). However, this is not always the case in the SME market, where startup leaders often take their company's fortunes personally. Therefore, they must avoid losing what may be their whole life savings by mismanaging such prominent and influential companies.

It is a central tenet of agency theory that people always act in ways consistent with certain features of their nature. The lack of a barrier between management and ownership also makes SMEs less prone to greed and opportunism. Because of their unusual ownership structure, SMEs rarely experience problems with CEO duality or tenure. Many SMEs are organized as joint ventures, partnerships, or are employee-owned. These companies may have engaged boards, but their members are typically the firm's partners. Such systems have unique governance mechanisms and practices that must be acknowledged (Gulati & Westphal, 1999; Goodall & Warner, 2002).

Corporate governance is sometimes argued to require shielding the interests of those who provide external financing from those of the company's management. They claim that firm owners' and managers' interests are only sometimes aligned. The problem of agency describes the issue of conflicting interests between owners and managers.
Businesses can reduce the potential for conflicts of interest between managers and owners by employing good corporate governance practices (Musah & Adutwumwah, 2021).

FIGURE 1: AGENCY MODEL



The Stakeholder Theory

Researchers have also proposed another notion called the stakeholder theory. Organizational stakeholders are the primary focus of stakeholder theory. Businesses should prioritize the interests of all their stakeholders and act accordingly. Stakeholder theory (Freeman, 1983) advocates considering the interests of stakeholders and those of the business's owners. Many different groups, including customers, employees, suppliers, the community, and shareholders, are vested in how a business is run. For this reason, all relevant stakeholder groups must be adequately represented on corporate boards.

In accordance with the stakeholder theory, corporate governance is to ensure that the well-being of all those who have stake in a business are satisfied. All parties involved in a corporation should be treated fairly and have their interests met, and this is only possible through practical corporate governance standards. Stakeholder theory, first developed by Freeman (1984), has gained widespread acceptance in management studies. Donaldson and Preston's (1995) study suggest that corporate stakeholders have spread widely within management theory.

As an alternative to shareholder theory, stakeholder theory has recently gained popularity (Spence & Schmidpeter, 2003).The stakeholder theory is different in relation to the shareholder theory in that it acknowledges that most enterprises serve the interests of multiple groups rather than just shareholders alone (Cragg,2022). It argues in favor of the

concept that shareholders should be given priority over other interested parties in a business (Freeman & Reed, 1983). As a result, the stakeholder theory contradicts conventional financial wisdom, which holds that businesses should prioritize the financial well-being of their shareholders above everything else (Mansell, 2013). According to Kahan (2008), stockholders are just one of several potential claimants in a company.

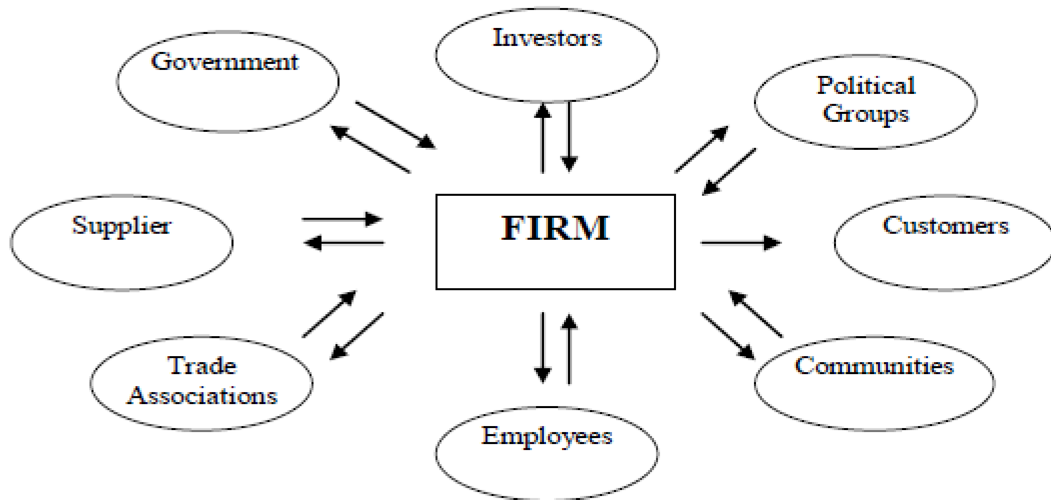
The stakeholder theory considers the need for a fair distribution of benefits between shareholders and other stakeholders (Gupta et al., 2020).Deck (1994) agrees with financial theorists' stance that a company should exist to generate profit for its shareholders. Investors are traditionally considered company shareholders; however, this definition is expanded to encompass employees, governments, and communities that provide enterprises with infrastructure, talents, and information. Stakeholders are the people that stand to gain or lose from a company's potential to create wealth, as defined by Post et al. (2002). Those who have a stake in a company have made contributions, either directly or indirectly, that have increased their ability to create wealth. In addition to the more apparent contributions of capital, labor, and revenue, stakeholders often give fewer tangible resources, such as social approval (Sweeney, 2009). According to Halal (2000), the value of these assets is around ten times greater than the sum of the shareholders' monetary inputs.

It is not just about the money when it comes to the risks that various groups face; employment and career prospects (for workers), product quality (for buyers), and environmental impact (for governments and societies) are also major factors to think about (Lorca & Garcis-Diez, 2004; Post et al., 2002). Employees lose their employment, retirement, and health benefits if the company declares bankruptcy.
According to the idea of the contribution of justice, the firm's profits is to be allocated among risk-bearing employees in proportion to their contributions and the risks to which they are exposed (Sweeney, 2009).

Stakeholder theory, which looks at the processes and effects of these interactions for the organization and its stakeholders, is based on Freeman's (1984) belief that the network of

ties with diverse groups could influence decision-making processes. According to Donaldson and Preston (1995), this paradigm prioritizes managerial decision-making because it treats all stakeholders' interests equally important.

Figure 2: The Stakeholder Model (Donaldson and Preston, 1995)



Stewardship Theory

Stewards are those within an organization whose duties are to put safety of the business and improve its performance for the benefit of the owners. According to this view, managers are stewards of the company's resources and are responsible for maximizing profitability. Therefore, the company's leadership and employees must always treat the interests of the shareholders with caution.

Davis et al. (2018), states that stewardship theory can be traced back to the social sciences and is characterized as follows: the steward provides safety and maximizes business owners' funds in the form of business success since, in doing that, the stewards' duties and functions are maximized.

Executives and managers at the highest levels of a firm are stewards if they look out for the interests of shareholders and help the business make money. Management is viewed under stewardship theory (Donaldson & Davis, 1991) as stewards whose goals are interwoven into the firm as a whole rather than as individuals. According to the stewardship perspective, achieving organizational success is seen as a source of pride and satisfaction for stewards.

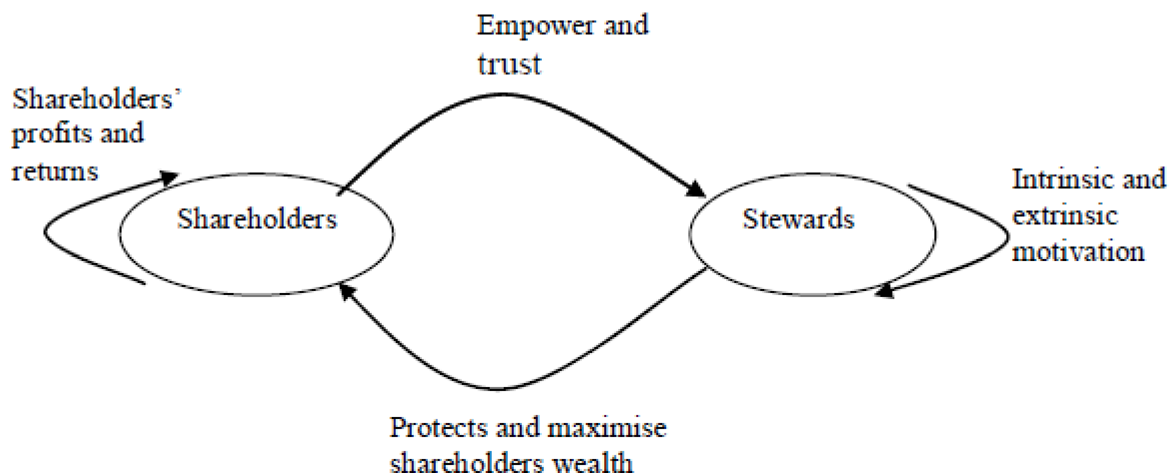
Tate,2010 contends that people's desires are stifled because agency theory treats them like commodities. The value of frameworks that grant the steward authority and permit considerable discretionary authority based on trust is, however, acknowledged by stewardship theory (Fourie, 2016). The ability of managers and executives to make independent judgments is valued, with the final result being a rise in stockholder profits. This can reduce the costs of monitoring and policing individual behavior (Baumeister & Alquist, 2009).

Nevertheless, Daly et al. (2003) argued that managers and board members are incentivized to run the company to maximize financial performance and shareholder profits.

There is a school of thought that says a firm's financial success is directly proportional to how its personnel rate their performance. While Shleifer and Vishny (1997) stress the need for managers to repay investors to build a good reputation for future financing, Fama (1980) believes that executives and directors should manage their careers to be recognized as successful stewards of the firm. Countries like Japan, where workers view their jobs as stewardship and are dedicated to performing a good job, are akin to the stewardship approach.

To further cut agency costs and elevate both positions, stewardship theory promotes merging the roles of CEO and chairman. A more vital safety for the interest of shareholders was to be implemented. The two concepts work better together than separately (Donaldson & Davis, 1995).

Figure 3: The Stewardship Model



Resource Dependency Theory

According to this theory, board members' primary responsibility is to secure funding for their company. According to the resource dependency hypothesis, board members are a company's greatest asset when securing external support (Liu et al., 2014: Arnegger et al., 2014). Businesses thrive when they can access the tools they need to run smoothly (Afrifa & Tuarigana, 2015; Liu et al., 2014). Essential information, professional skills, expertise, and access to suppliers, buyers, and social groups are just some essential resources that directors can supply.

The directors of the board have the responsibility to safeguard the company to access needed resources and is given greater weight in the theory of resource dependency than in the stakeholder theory. Directors' relationships with outside world are emphasized in resource dependency theory due to their importance in obtaining and providing for an organization's resources, as stated by Hillman et al. (2009).

Pfeffer and Salancik's (2003) resource dependency theory states that for a business to succeed over the long term, it must successfully connect with and interact with its external environment. The theory's central tenet is that companies constantly interact with their

surroundings, whether to source inputs or sell off outputs. Therefore, businesses should work to exert influence on their surroundings in order to stabilize resource flows and reduce the impact of environmental uncertainty (Pfeffer & Salancik, 2003).

In order to gain access to crucial resources, resource dependency theorists, such as Johnson et al. (2017), advocate for appointing representatives of independent groups. In the case of a law firm, for instance, having outside directors who are also partners can save the company money on legal advice that would otherwise have to be paid for.

Resource dependency theory has heavily impacted on the studies directors of the board (Hillman et al., 2009; Malatesta & Smith, 2014), despite the dominance of agency theory in the field. According to Pfeffer (1972), having a board of directors can help reduce dependence and increase resources. According to an extensive review of the relevant literature, resource dependency theory is the most widely supported framework for understanding boards of directors. As a result, resource dependency theory provides a more helpful lens through which to comprehend boards than agency theory while being applied to examine boards less frequently.

Pfeffer (1972) and Pfeffer and Salancik (2003) studied the relationship of the size and board composition and its ability to provide essential resources to a corporation. Many studies have substituted measures of resource reliance, such as board size and business performance.

Directors claim to help their companies in a number of ways, such as information provision in counselling and guiding, establishing communication channel in the organization and externally, giving the company access to exclusive resources, and establishing the company's credibility (Pfeffer & Salancik, 2003).

The theories of corporate governance guide the activities of operations of individual business of how to direct and to be run. In summary, the agency theory talks about solving the issues brought about as a result of separation between owners of business and managers. The stakeholder theory discusses the inclusion of the various individuals who have stake in the business. The stakeholder theory suggests that all those who have stake in the business should be treated fairly and be represented on corporate boards.

On the other hand, the stewardship theory focuses on the individuals who run the daily activities of the firm. The theory states those individuals should be given the needed support to steer the affairs of the business.

The other theory this study examined is the resource dependency theory which suggests that the board of directors are the channel through which the needed resources to run the firm relied on.

The most popular theories in which most corporate governance studies has focused on is the agency theory.

This is due to the issues that comes as a result of managers and business owners' separation (Musah et al, 2002, Ofoeda, 2017). One of the reasons for practicing good corporate governance is to assist to minimize the agency problem (Musah & Adutwumwaa, 2021). On the other hand, Abor and Adjasi (2007) concluded that agency problem in SMEs is little and sometimes there is even no agency problem at all due to ownership and management separation which are few in most SMEs especially in under developed economies.

They also mentioned that under developed countries like Africa which Ghana is no exception, most of the SME's businesses are owned and controlled by the owners which the possibility of agency problem might not occur. The issues put up by the above authors point out that the agency theory will not suit the reasons for the encouragement of SMEs to practice good corporate governance.

The study will therefore focus on the stakeholder theory as the theoretical framework for the purpose of this study. The stakeholder theory proposes the inclusion of all who have stake in the business. When all these stakeholders are treated fairly, they receive accountability from the business operations, it will boost their confidence level to invest. When owners of SMEs also act responsibly in their operations, it will enhance their stakeholder relations.

The above argument is the reason why this study will rely on stakeholder theory as the basis for analysis and discussion.

Corporate governance principles

To aid in decision making and evaluation and creating the sector's legal, regulatory, and institutional framework, the OECD published corporate governance guidelines in 2015. The University of Lincoln states, corporate governance is the framework and policies that guide company conduct, practice, and decision-making. The OECD (2000) outlines four guiding principles that can be used to create this framework: accountability, transparency, justice, and responsibility.

Accountability

Accountability is the cornerstone of good company governance. This is critical for any company. Managers and workers alike must be held accountable for their actions if the company is to realize its goals and fulfill its mission. Collier & Esteban, (2007). The separation of powers ensures this. One way to accomplish this is to divide the roles of business owners and managers. Every organization must explain and defend its operational choices and outcomes. When businesses are held accountable, trust is developed among all parties involved.

This strengthens relationships between a company and its constituents. This helps secure investors and boosts confidence among stockholders. They have a system of accountability that guarantees that all relevant parties are informed of all corporate dealings and activities. Regular updates to the board and other interested parties will allow for an objective evaluation of the company's progress toward its goals.

Prioritizing efficient risk management procedures within an organization is essential for ensuring efficiency in corporate governance and sustaining good corporate governance standards across the firm. There has been a general shift toward recognizing the value of risk management as a tool for fortifying businesses. Corporate governance's efficacy and success were quantified (Basar & Celayir, 2020). Businesses must foster open communication, transparency, and accountability to manage risks effectively. Internal auditors will have an advisory and assurance role in improving system performance (Basar & Celayir, 2020). Good corporate accountability includes adopting sustainable company

strategies, issuing formal corporate reports, and using effective risk management and internal control mechanisms.

Transparency

This principle is an effective management tool since it informs interested parties about the company's operations and any potential dangers its chosen course of action poses. When transparent, a company gives its stakeholders accurate and complete information. This data may or may not be monetary. When investors have access to information being financially and non-financially, they are better able to make sound decisions. Corporate governance principles are a set of understandings and mechanisms that help meet all stakeholders' financial and non-financial information demands (Ayboga, 2021).

Transparency occurs when the public has ready and timely access to information about policy objectives, policy decisions, and their rationale, the policy's legal, institutional, and economic framework, information and data related to monetary and financial policies, and the terms of agencies' accountability, as outlined in the OECD's Principles of Corporate Governance (2004).

Álvarez-Foronda et al. (2023) argued that businesses need internal control and procedures to increase the likelihood that they will succeed in meeting their goals. The company's financial report should be accurate and reliable. Thus, it is essential to have internal auditors set up those controls.

Business risk and public scrutiny can be reduced with the help of solid internal controls. Every aspect of the company's operations should be completely open and honest. Companies should be transparent and willing to share information about their financial, social, and political standing with their owners, stakeholders, customers, and the general public. A study on this topic was published by Vukovi et al. (2016). Maintaining a thorough audit committee, doing regular external audits, and publishing thoroughly researched and accurate yearly reports are all signs of a transparent board of directors.

Good corporate governance rests on a foundation of transparency. This is critical for any company. Managers and workers alike must be transparent in their actions if the company is to realize its goals and fulfill its mission (Collier & Esteban, (2007).). The separation of powers ensures this. One way to accomplish this is to divide the roles of business owners and managers. Every organization must explain and defend its operational choices and outcomes. When businesses are transparent, trust is developed among all parties involved. This strengthens relationships between a company and its constituents. This helps secure investors and boosts confidence among stockholders. A system of transparency guarantees that all relevant parties are informed of all corporate dealings and activities. Regular updates to the board and other interested parties will allow for an objective evaluation of the company's progress toward its goals.

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Good corporate transparency includes adopting sustainable company strategies, issuing formal corporate reports, and using effective risk management and internal control mechanisms.

Fairness and equality

Fair means presenting information and dealing with stakeholders without favoritism. According to Davis (2011), equity requires safeguarding the interests of business proprietors. Treating everyone and everything in the firm somewhat is essential.

The hazards and legal requirements of data sharing necessitate a thorough examination. According to the research, data-driven innovations, such as personalized treatment may pose more risks than they are worth without proper oversight (Koren & Gal, 2019).

Everyone involved in the company deserves equal treatment regardless of their investment or title. Clarke (2004) argues that business leaders should prioritize efficiency and profit. As a result, safeguarding the interests of both customers and workers is essential. Justice protects workers' livelihoods, reduces income disparities, and advances the common good.

All those who made monetary contributions to the company's affairs should be compensated fairly for their efforts. Economic and social goals and personal and group objectives must be balanced (Shleifer and Vishny, 1997). Companies that show partiality risk alienating their stakeholders, including financiers, suppliers, customers, and the general public. Incompetent or 'closed-door' leadership and the advancement of family members or friends are all signs of unfair treatment in the workplace (Belasen & Toma, 2015).

Responsibility

Executive authority rests with the board of directors (Fryxell & Lo, 2003). Therefore, directors are expected to take complete accountability for everything they do and decide. As a result, they can be held accountable for their behavior. If the board and management are to direct the company effectively, they must do it carefully (McGrath & Whitty, 2015). Every director's decision should be made ethically bearing in mind the interests of the entity and all other people who have stake in the business. The executive team and board of directors prioritize the following areas: Management of Efficiency, Integrity, and Accountability in Organizations (Karabulut et al., 2020). Value creation for shareholders needs to be guaranteed and adhered to for performance to be assured. Investments in renewable energy and emission reduction can lead to long-term value creation for businesses thanks to their potential to innovate, add value, and reduce their environmental impact, but doing so comes with its own set of risks (Fahy et al., 2005).

Small and Medium Enterprises

Only some formal definitions of SMEs exist (Storey, 2016). According to Montanari & Kocollari,2020, the definition of SMEs changes depending on who is doing the defining and where. Numerous factors can be used to categorize firms, including but not limited to size, number of employees, location, ownership, sales volume, and manufacturing techniques (Potobsky, 1992; Quartey & Kayanula, 2000). SMBs are defined differently among nations. The International Labor Organization (ILO) surveyed 75 countries and uncovered more than 50 definitions of SMEs. The majority of these studies used staff counts to categorize SMEs. However, there has been a lot of difficulty and controversy around the precise number of employees needed to represent SMEs (Jenkins, 2006).

Previous research defines SMEs as having anywhere from 100 to 800 workers (Spence and Moore,2006; Spence et al., 2003; Gomolka, 1978; Bessera & Miller, 2000; Hitchens et al., 2003; Graafland et al., 2003) in developed nations. UNIDO used employee counts to categorize SMEs in developing countries. Companies with 20 to 99 personnel are medium-sized, while those with 5 to 19 are tiny. SMEs have typically been defined regarding staff count (Boon, 1989). According to the Ghana Statistical Service, a company is deemed small if it employs ten people or fewer; otherwise, it is classified as medium or large (Avevor, 2016; Teal, 2023). When defining SMEs in Ghana, the National Board for Small Scale Industries (NBSSI, 2019) used employee count and fixed asset value as criteria (Ntiamoah & Kwamega, 2016; Ocloo et al., 2014).
Small-scale businesses are defined as having fewer than nine employees and total fixed assets (excluding land, buildings, and vehicles) valued at less than GHC 1 billion, while medium- and large-scale businesses have more than nine employees and total fixed assets valued at more than GHC 1 billion (Ghartey & Acquaye, 2022). The valuation of assets can be misleading, as currency fluctuations worldwide make a definition based on assets seem antiquated (Kayanula and Quartey, 2000).

According to the Ghana Statistical Service (GSS), a small, medium, or large business in Ghana must have between six and one hundred employees (Amoah, & Amoah, 2018).

Small and medium-sized enterprises (SMEs) are defined by the Venture Capital Fund Act 2004 (Act 680) in Ghana as businesses, projects, enterprises, or activities that employ 100 or fewer people and whose asset base, excluding buildings and land is valued at no more than one million Ghanaian cedis. The Ghana Statistical Service classifies businesses as micro, small, or medium based on the number of employees they have. They classify micro as one with one to five, small with six to thirty, and medium are those with thirty-one to one hundred and one. Most firms in Ghana fall under the category of small and medium size, according to the description provided by the Ghana Statistical Service.
The rapid growth of the economy of Ghana depends heavily on small and medium enterprises. In Ghana, the private sector is the driving force behind SMEs because the private sector is made of 90% businesses and are classified as SMEs (Musah, 2017).
SMEs employ over 60% of Ghana's labor force and contribute significantly to the country's falling unemployment rate. SMEs in Ghana are crucial to the country's economic growth and job creation according to studies conducted by Amoateng et al. (2017).

Given the growing graduate unemployment rate and the need to revitalize the country's manufacturing sector, Ghana's government and other relevant stakeholders must prioritize the country's SME sector (Amoateng et al., 2017). The SME sector has been the most stable contributor to GDP, increasing from 11.3% in 2000 to over 22.5% in 2015 (Padi &Musah,2022). There are a wide variety of SMEs in Ghana ranging from Crafts people, food processing businesses, factories, and exporters are examples of SMEs in Ghana. Some of them have formal organizational structures and even official offices.
Since registered and organized SMEs positively and significantly contribute to economic growth and social well-being (Lingelbach et al., 2005), they will be the focus of this research.

Issues of Corporate Governance in SMEs

Historically, corporate governance is known more of an issue for larger corporations. This is because there is a widespread problem with agencies in such organizations. The division between the company's owners and its management causes the agency dilemma (Flayyih & Khiari, 2023). Some SMEs in developing nations are owner-managed. The owner of a sole proprietorship typically acts as both the company's CEO and manager (Hart, 1995). SMEs in developing nations tend to have less division between ownership and management than major corporations. This has led some to suggest that SMEs do not need to follow established rules of good corporate governance. Others contend this is only sometimes the case, especially in family-owned SMEs (Abor & Biekpe, 2007; Chu, 2009; Ainsworth & Cox, 2003), where the owner and many workers are related. As a result, good corporate governance is unnecessary for their business.

There is also the problem of SMEs needing to be held accountable by the state because they do not think they need government funding. Since sole proprietorships are not required to file any paperwork with the government, there is little need for them to adhere to corporate governance standards (Abor and Adjasi, 2007). This research's topic is SMEs in Ghana's registry. Companies that fall into this category are mandated by law to follow best practices in corporate governance. They must adhere to the principles of good corporate governance because they are now subject to the laws of Ghana.

According to many authors (Tricker & Tricker, 2015; Othman & Rahman, 2011), corporate governance is the set of norms and practices that regulate how a corporation operates and makes decisions. Accountability, openness, equity, and responsibility are the four pillars of this system. This is critical for any company. Every organization must explain and defend its operational choices and outcomes.
Taking responsibility benefits the company and its external constituencies (Kang & Hustvedt, 2014). This helps secure investors and boosts confidence among stockholders. Corporate accountability includes issuing formal corporate reports, implementing effective risk management and internal control systems, and approving sustainable

company strategies (Council & Britain, 2010). Every aspect of the company's operations should be completely open and honest.

Companies should be transparent and willing to share information about their financial, social, and political standing with their owners, stakeholders, customers, and the general public.

Corporate transparency is high when the board creates an audit committee, routinely performs external audits, and publishes comprehensive, fact-checked annual reports (Abdullah et al., 2018).

Treating everyone and everything in the firm somewhat is essential. All stakeholders and shareholders should be treated fairly (Bottenberg et al., 2017; Post et al., 2018), regardless of the number of shares they own or where they sit in the company's organizational chart. Companies that show partiality risk alienating their stakeholders, including financiers, suppliers, customers, and the general public. Incompetent or 'closed-door' leadership, the promotion of family members or friends, and other forms of nepotism all indicate a lack of corporate fairness. Because of their role as the company's top decision-makers, board members must act ethically whenever they are given authority (Jamali & Mirshak, 2007). Directors must act ethically and for the benefit of all stakeholders at all times.

Previous research (Akingunola et al., 2013; Burak et al., 2017; Karabulut et al., 2020) has examined how accountability and fairness affect the performance of larger organizations and how transparency and responsibility influence these concepts.

The research was limited in scope and only examined the effects of size on performance. Therefore, this research aims to analyze how these tenets correlate with SMEs' success in Ghana. Ofoeda (2017), Ali et al. (2019), Musah et al. (2019), Owusu & Weir (2018), Adeabah et al. (2019), Agyei-Mensah (2019), and Musah & Adutwmnwah (2020) all centered their research on the effects of corporate governance on business results. This study set out to address a gap in the literature by investigating the effects of adhering to best governance principles on financial outcomes. SMEs are essential to economic development in many countries.

More research is needed on corporate governance, especially for SMEs which plays an essential part in any economy, but most studies focused on larger listed businesses instead.

Related Research

There are several studies that have been done on corporate governance in recent years, both abroad and in Ghana (Osei et al., 2019; Ozili, 2021; Musah et al., 2019; Musah et al., 2022). Despite SMEs' critical role in driving economic development around the globe, including in developing nations, relatively few of them have focused on this sector.

Examples of studies that examined the implications of corporate governance on publicly traded firms are those by Ofoeda (2017), Musah et al. (2019), Owusu & Weir (2018), Adeabah et al (2019), Agyei-Mensah et al. (2019), Ali & et al. (2019), and Musah & Adutwmnwah (2020).
Other studies determined the effects of corporate governance practices on the success of SMEs (Dziba, 2015; Padi & Musah, 2022; Asunku, 2017 by looking at indicators like board composition, the board size, CEO duality, gender representation of board members, managerial competence, financial disclosure, transparency, and the representation of directors who are non-executive members. The studies above did not address the consequences of adherence to corporate governance principles and its impact on financial performance of SMEs in Ghana. SMEs dominate higher percentage of Ghana's non-governmental sector (Ahmed, 2019; Abor & Adjasi, 2007; Musah et al., 2018), and SMEs are the most job creating sector of the economy. However, SMEs' low performance and growth can be attributed to inability to secure the needed capital, which is, in turn, can be associated to inadequate and weak governance practices.

According to previous studies, an organization's internal operations are enhanced, and it can better secure capital for expansion thanks to better corporate governance (Afrifa & Tuaringana, 2015; Mahzan & Yan, 2014). Good corporate governance positively affects a company's strategic goals, financial forecasts, transparency, and shareholder activism (Abor & Adjasi, 2007). studies have identified a correlation between practices of good

corporate governance and the small and medium-sized enterprises financial performance. Other components of corporate governance that have been studied include CEO turnover, CEO duality, board size, and board independence. Managerial expertise of the board and transparency are just two of the many aspects of corporate governance studied. See, for instance, Ofoeda (2017), Oppong et al. (2016), Ansong (2015), and Asunka (2017).

Corporate governance's most contentious issue is maximizing an organization's chances of success through tried-and-true policies and practices (Nasrallah & Khoury, 2022). The research suggests that these variables may or may not affect SMEs' bottom lines.
Possible causes include regulatory differences and the unique characteristics of SMEs. Afrifa and Tuaringana (2015) investigated how corporate governance affected UK SMEs' productivity and concluded that board size was among the most critical factors.
The study also discovered that the presence of independent directors on the boards of UK SMEs has no bearing on the financial outcomes of such companies.

Padi and Musa (2002) found that good corporate governance practices which includes the size of the advisory board, skills of management, the composition of the board, transparency, and financial disclosure, positively affected the financial performance of SMEs in Ghana. Abor and Adjasi (2007) found that good corporate governance was linked to better financial performance, capitalization, and more capable management.
Abraham Ansong and colleagues found that SMEs in Ghana with good corporate governance had significantly better financial results. Factors such as board size, managerial skill, strategic acumen, Corporate Social Responsibility and stakeholder participation play a role.

Mahzan and Yan (2014) found that sound corporate governance practices are uncommon among SMEs. Nonetheless, the company's bottom line could strengthen if appropriate precautions are taken. Research on corporate governance in Ghana's SMEs is essential, but it should have paid more attention to the association between good business practices and growth of an economy.

Previous studies have focused largely on corporate governance of large firms and its implication towards growth of such businesses. Few research has been conducted on corporate governance among SMEs. The few research on SMEs corporate governance is even on advance countries.

The few studies on corporate governance practices on SMEs in under developed countries used indicators of corporate governance practices that does not fit the operations of SMEs in under developed economy (Padi & Musa, 2002, Abraham Ansong, 2015, Abor & Adjasi, 2007, Kyereboah,2007). These studies employed corporate governance indicators such as composition of the board, size of the board, female representation of the board, intensity of the board activity. In Ghana, most SMEs have little involvement or no involvement of board of directors in their business operation. Therefore, examining the effects of size of the board, activities of the board across all SMEs in Ghana does not produce favorable result.

The major basis for corporate governance studies is the agency theory. The agency theory mostly comes because of information asymmetry which managers act as agents to perform duties for owners of the business.

The foundation of corporate governance was derived from the issue of agency problem in modern organizations that came about as a result of duty separation among managers and owners of businesses.

This study will employ other indicators of corporate governance that has been little featured on studies related to corporate governance practices and its effects on SMEs financial performance.

Empirical studies conducted by other authors in relation to this study explored other practices of corporate governance and its effects on SMEs performance.

Studies conducted by Abor and Biekpe (2007) aimed at finding out what corporate governance structures are adhered to by SMEs and its implications on performance of SMEs in Ghana. They determined the relationship between ownership structures and corporate governance and performance with the help of regression analysis. Their result indicated that size of the board, duality of the CEO, inside ownership, level of

management skills, family ownership and foreign ownership have a positive and significant impact on business profit.

After the studies by Abor and Biekpe, Kyereboah and Amidu (2008) also did a study by investigating the relationship between financial performance and corporate governance among SMEs in Ghana. Their aim was to get the information concerning how SMEs in Ghana understands corporate governance and also to find the link between corporate governance issues and performance among SMEs in Ghana. Their result indicated that governance structures in SMEs are influenced by credit providers and business ethical considerations. They made use of the regression analysis to find the effects of corporate governance practices such as size of the board, independence of the board, audit committee size, corporate ethics and the proportion of outsiders on the audit committee and their impact on financial performance of SMEs in Ghana. The result revealed that size of the board, size of the audit committee, proportion of outsiders on the committee, corporate ethics have a negative impact on financial performance. The result also showed that the board's independence and audit committees' presence strengthen financial performance.

The study conducted by Abraham Ansong (2015) sought to examine the effect of size of the board, intensity of board's activity, competence of management, strategic competence, corporate social responsibility, stakeholder engagement on financial performance of SMEs in the Accra metropolis, Ghana.
The author also tried to find out factors that mediate the corporate governance practices mentioned above and financial performance of SMEs in the Accra metropolis. Some of the mediating factors he focused on includes access to capital and reputation of the firm. The study used the multiple regression analysis to test the hypothesis. The final result of the study showed the followings;
The relationship between size of the board and financial performance of SMEs in Ghana is significantly positive and access to capital mediated the relationship whiles firm reputation shows no mediation between them.

The intensity of board’s activity and financial performance has no association. There was also no mediation of access to funds and firm reputation in connection with intensity of board’s activity and financial performance of SMEs in Ghana.

The relationship between managerial competence and SMEs financial performance was positive and significant. However, whiles access to capital fully mediate their relationship, reputation of the firm does not show mediation.

Strategic competence and financial performance of SMEs in the Accra metropolis shows a positive and significant relationship. The access to capital and firm reputation both partially mediate their relationship. There was a positive and significant relationship between financial performance and corporate social responsibility among SMEs in the Accra metropolis. Both firm reputation and access to capital as mediators partially mediate their relationship.

Pad& Musah (2002) analyzed how corporate governance practices influence financial performance of small and medium-sized enterprises in Ghana. They used corporate governance practices such as size of the board, board composition, competency of managers, financial disclosure and transparency to examine its effects on financial performance of SMEs in Sekondi Takoradi metropolis, Ghana. They used the multiple regression analysis method as the statistical tool to test hypothesis with the help of Predictive Analytic Software. Their study revealed the following results;

The advisory board size had a positive relationship with SMEs financial performance. The coefficients between the two variables were also significant which shows that advisory board with large members increases the financial performance of SMES. The result suggests that large board size gives SMEs the opportunity to bring on board people with the right experience, skills to improve the organization operations (Musa et al, 2019). Their result was in connection with resource dependency theory which confirmed the assumption that a large board size brings broad diversity which leads into strong corporate governance and improved financial performance.

This result imply that SMEs should encourage the presence of large board size to bring on board more experienced and skilled members to the board to run the activities of the business to increase their performance.

The board's composition has a positive effect on financial performance of SMEs in Ghana. The relationship between these variables was also significant. Their result supported the result of studies conducted by Dziba, 2015, Ansong, 2015, Abor and Adjasi, 2007) which argued that diverse boards members bring on board mixture of experiences and skills to enhance the performance of businesses.

The result suggests that SMEs should ensure diversification of their board members and this will lead to the combination of various skills needed in this modern business world to drive a business vision.

The competence of management of SMEs has a positive impact on their financial performance. The positive effect also has a significant association between the variables. The result implies that a leader who is competent can improve financial performance of firms and therefore sound corporate governance should bear in mind the competence of management and managers of businesses. Their findings agreed with that of the studies by Abor & Adjasi which suggested that board members competency helps improve SMEs financial performance.

The study also predicted a positive effect of financial disclosure and transparency on financial performance of SMEs. The result also shows a significant effect between financial performance and financial disclosure and transparency. Disclosure of information and transparency gives firms the opportunity to secure the needed capital to expand their operations which also improves their financial performance (Abor & Adjasi, 2007).

Afrifa & Tauringana (2015) investigated the effect of corporate governance on SMEs listed in UK stock market performance. They made use of the panel data regression analysis of SMEs over period of 10 years (2004-2013). The result showed that corporate governance practices such as size of the board, age of CEO and tenure and remuneration

of directors suggests a significant impact on UK's listed SMEs performance. Their research also proofs different impact corporate governance on performance of small against medium entities. The result proofs that size of the board have a negative significant effect on both firm sizes. It also revealed that age of the CEO shows a significant impact only on medium size firm performance whiles remuneration of directors shows a significant effect on small firms only. The study further found out CEO tenure have no significant impact on either small or medium firms' performance.

Yusro et al (2019) examined the impact of intrinsic corporate governance on financial performance of SMEs in Indonesia. They examined the relationship between corporate governance and profitability of SMEs in Indonesia of which they used panel data comprising of 50 samples of Indonesian SMEs for the period of 5 years between 2013-2017. They employed the factors such as family ownership, board size and gender diversity.
The result shows that family ownership has a negative significant effect on Indonesian SMEs profitability. The study further reveled that the factors of corporate governance which are gender diversity and size of the have a significant positive effect on SMEs in Indonesia profitability.

The above studies carried out by the various authors used factors that are mostly common with larger firms. For example, it is uncommon to find well-structured and active board of directors, audit committees among most SMEs in non-advanced economy like Ghana. In a nut shell, the above research conducted on SMEs in under developed economies had weaknesses as they employed factors that mostly fit larger industries which form its basis on agency theory. They also lack the recognition of variables that fit SMEs governance framework.

To address the shortfalls posed by previous studies on SMEs in under developed economy, this study employs factors that fit all operations among various SMEs in Ghana. The study focused on corporate governance principles which is common to all forms of businesses whether large or small.

Conceptual Framework

The concepts of main principles of corporate governance and its impact on SMEs financial performance formed the basis of the conceptual framework shown below.

According to the framework, these principles are significantly related to financial performance. These main principles are accountability, fairness, transparency and responsibility.

These principles will be used for the study as independent variables in this study. The study will also use financial performance as dependent variable.

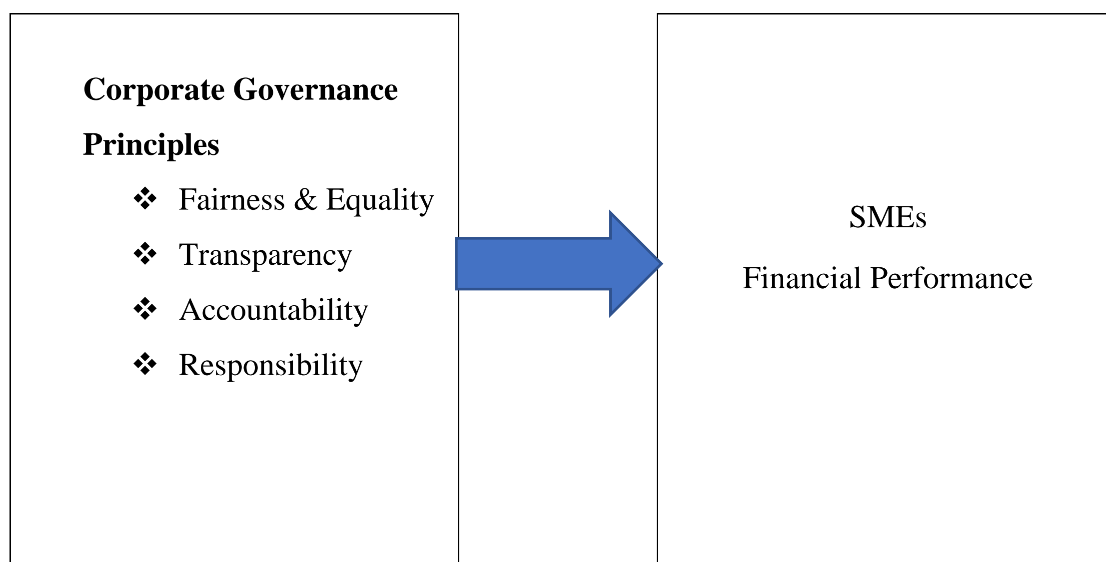

FIGURE 4: CONCEPTUAL MODEL

SOURCE: Author construct

Hypothesis. Based on the conceptual framework above, below are the hypothesis developed.

H1: Corporate governance has a positive effect on SMEs financial performance.

H1a: Accountability have a positive effect on SMEs financial performance.

H1b: Transparency have a positive effect on SMEs financial performance.

H1c: Fairness have a positive effect on financial performance of SMEs.

H1d: Responsibility have a positive effect on financial performance of SMEs.

CHAPTER III

Methodology

Research Design

The study is quantitative in nature. The statistical method used is the descriptive statistics method which was used to analyse the collected data. The regression analysis model was used to test the impact of the independent variable on the dependent variables.
The relationship between the independent variable and the dependent variable was determined by the use of correlation analysis method. The collection of data was done through the use of a questionnaire on a five-point Likert scale. The analysis was conducted using the SPSS statistics program.

Population and Sample

The study relied heavily on the definition given by the Ghana Statistical Service which group SMEs as those with employees ranging from six to thirty as small and those with thirty-one to one hundred and one as medium (GSS,2019).

The population for the study was obtained from the Registrar General Department of Ghana. The current active registered SMEs in Accra, according to the Registrar General is 8055 (rgd.gov.gh; Gyimah, Akande & Muzindutsi, 2022). A sample size of 367 managers and owners of SMES was used to administer the questionnaire. The sample size was arrived at with reference to Krejcie and Morgan's (1970) table.

A total of 367 questionnaires was distributed of which 324 were fully completed by the respondents. The research was limited to SMEs registered and classified by AGI and the NBSSI. The purpose of using registered SMEs was to guarantee that the sampled SMEs have established corporate governance frameworks, a prerequisite for joining the aforementioned organizations. In addition, such organizations' organizational processes and governance are more standardized, making assessing their effect on financial results simpler.

A convenience sampling method was used to select the managers and owners of SMEs. This non-probability sampling method allows the researcher to select the sample that suits the study. The convenience sampling method helps the researcher to select the respondents that are available for easy access of information during the questionnaire administration.

Data Collection method /Tool or Material

The data was collected within the periods 5th May to 7th June 2023. The data was collected using a questionnaire on a five-point Likert scale. The questionnaire was obtained from a study by Karabulut et al. (2020) titled" Relationship among Corporate Governance Principles and its Effect on Firm Performance." The questions were fully used and unchanged.

The questionnaire was designed on a Google Form. It was then sent to some of respondents through their email and WhatsApp messages.

Most of the questionnaire was also administered face-to-face with the managers and owners of various SMEs, where they were asked the questions and answered by clicking the answers according to their business information. I reached out to researchers based in Ghana-Accra and they helped distribute the questionnaires to the owners of various SMEs. Appointments was booked with the various SMEs owners in the Accra metropolis and permission was granted before questionnaire was administered.

Data Analysis Procedures

This research aims to analyse how adhering to good corporate governance principles has affected the financial performance of SMEs in Accra, Ghana. The researcher utilized Microsoft Excel for variable computation and SPSS for statistical analysis, employing the following methods to accomplish the study's aims. Significant trends and variability or spread measures (Minimum, Maximum, Mean, Median, and Standard Deviation) are all part of descriptive statistics. The effect of corporate governance principles on financial performance was investigated by employing a regression analysis model. The multiple regression model was developed below to test hypothesis:

$$FP = ß0 + ß1TRP + ß2FE + ß3ACCTBTY + ß4RESPNSBLTY + \varepsilon it$$

Meanings of the symbols;

FP= Financial Performance

ß0= Intercept

TRP= Transparency principle

FE= Fairness and equity principle

ACCTBTY= Accountability principle

RESPNSBLTY= Responsibility principle εit= error term

CHAPTER IV

Findings and Discussion

Background Information of the Respondents.

Table 1 below describes the background information of the respondents which includes the types of business ownership, the size of the business, the ages of the business, the years that they have operated the business, their educational level, position in the business, and the registration of the business.

Table 1: Background information

		N	Marginal Percentage
Form of Business	Sole Proprietorship	183	56.5
	Partnership	141	43.5
Business size	Small	149	46.0
	Medium	175	54.0
Age of business	Less than 1 year	28	8.6
	1-3 years	54	16.7
	3-6 years	76	23.5
	7-10 years	73	22.5
	More than 10 years	93	28.7
Respondent’s year of experience in the sector	Less than 1 year	27	8.3
	1-3 years	52	16.0
	3-6 years	77	23.8
	7-10 years	75	23.1
	More than 10 years	93	28.7
Education level	Bachelor degree	115	35.5
	Master’s degree	78	24.1
	PhD	13	4.0
	Other	118	36.4
Position held in the business	Manager/Owner	321	99.1
	Advisory board member	2	0.6
	Other	1	0.3
Business Registration Status	Legally registered	324	100
Valid		324	100
Missing		0	
Total		324	

Table 1 shows the background information of the respondents. The results relate to the forms of business ownership: 56.5% (183) operate a sole proprietorship, 43.5% (141) operate a partnership business.
The results show that 46% (149) have a smaller business size, 54% (175) have a medium business size. The information relating to the ages of the business shows that 8.6% (28) have been operated for less than a year, 16.7% (54) have operated between 1 and 3 years, 23.5% (76) have operated their business between 4 and 6 years, 22.5% (73) have operated their business between 7 and 10 years, and 28.7% (93) have operated their business for more than 10 years. The information relating to the respondents' years of experience in the sector shows that 8.3% (27) have worked for less than a year, 16% (52) have worked between 1 and 3 years, 23.8% (77) have worked between 4 and 6 years, 23.1% (75) have worked between 7 and 10 years, and 28.3% (93) have worked for more than 10 years.

The information from the table relating to the educational level of the respondents shows that 35.5% (115) have acquired a bachelor's degree, 24.1% (78) have acquired a master's degree, 4% (13) have acquired a Ph.D. degree, and 36.4% (118) selected other. The results for the position held in the business show that 99.1% (321) are managers or business owners, 0.6% (2) are advisory board members, and 0.3% (1) selected others. The information regarding the business regression status, 100% (324), confirmed that all the businesses being sole proprietorship and partnership have been legally registered.

Descriptive Statistics

The section represents the information the respondents provided in response to the questions that were asked them. The rating scale used to interpret the responses was as follows: responses between 1 and 1.80 = very low or strongly disagreed; responses between 1.81 and 2.60 = low or disagreed; responses between 2.61 and 3.40 = undecided or at the same level; responses between 3.41 and 4.20 = agreed or high; and responses between 4.21 and 5.00 = strongly agreed or too high).

Table 2 below represent the responses to fairness and equality principles questions.

Table 2: Responses to fairness and equality principle

Responses	N	Mean	Std. Deviation
In our company, general assemblies are held duly.	324	4.52	.761
Minority rights are protected in our company	324	4.41	.600
Our company respects the right to receive and review information	324	4.61	.508
Valid N (listwise)	324		

Table 2 shows the responses given to the fairness and equality principles questions. The minimum responses for all the questions were strongly disagreed, and the highest response was strongly agreed. The average response (4.52, 4.41, and 4.61) shows that the respondent strongly agreed that general assemblies are held duly, minority rights are protected in the company, and they respect the right to receive and review information.

Table 3 below represent the responses received from respondents pertaining to transparency questions.

Table 3: Responses to transparency principle

Responses	N	Mean	Std. Deviation
In our company, public statements are made frequently.	324	4.63	.550
Related parties in our company are disclosed to the public.	324	3.35	1.061
In our company, information is presented electronically	324	4.74	.497
Valid N (listwise)	324		

Table 3 shows the responses to the transparency principle questions. The minimum response for the question, in which company public statements are made frequently, was disagreed, the highest response was strongly agreed, and the average response (4.63) was strongly agreed. The minimum response for related parties in the company disclosed to the public was strongly disagreed, and the highest response was strongly agreed with the average response (3.35), meaning that the respondents were undecided. The average

response (4.74) for the company, where information is presented electronically, was strongly agreed upon.

Reponses in regard to accountability principles is represented by table 4 below.

Table 4: Responses to accountability principle

Responses	N	Mean	Std. Deviation
Our company has a human resources policy	324	3.47	.984
Our company has company policies for stakeholders.	324	4.09	.671
Social responsibility is given importance in our company	324	3.97	1.033
Valid N (listwise)	324		

Table 4 shows the information relating to accountability principle questions. The result shows that the respondents agreed that the company has a human resources policy and company policies for stakeholders and that social responsibility is important to the company.

Table 5 represent the responses on responsibility principle.

Table 5: Response to responsibility principle

Responses	N	Mean	Std. Deviation
A corporate governance committee has been established in our company.	324	2.96	1.221
Financial rights provided to the advisory board in our company are known.	324	3.99	.827
Board meetings are held regularly in our company	324	4.45	.818
The committees formed in our company's advisory board are independent	324	4.49	.749
Valid N (listwise)	324		

Table 5 shows the responses to the responsibility principle questions. The average responses for a corporate governance committee established in the company were undecided. The average response for financial rights provided to the advisory board in the

company is known as agreed upon. The average response for board meetings is held regularly in the company, and the committees formed in the company's advisory board are independent were strongly agreed.

Responses to the financial performance questions is represented by table 6 below.

Table 6: Responses to financial performance questions.

Responses	N	Mean	Std. Deviation
Our total revenue	324	4.28	.761
Our net profit before tax	324	4.28	.779
Our profitability	324	4.27	.770
Our market share	324	4.26	.708
Our number of employees	324	3.45	1.124
Number of our customers	324	4.21	.784
Number of new products we introduced to the market in the last three years	324	3.45	1.272
The revenues we have obtained from the new products we have introduced to the market in the last three years are added to our total revenues rate.	324	3.47	1.284
Valid N (listwise)	324		

Table 6 shows the responses to financial performance questions. The average response for total revenue, net profit before tax, profitability, market share, and the number of our customers were too high. The average responses to the number of employees, the number of new products they introduced to the market in the last three years, and the revenues they have obtained from the new products we have introduced to the market in the last three years are added to the rate of the total revenue were high.

Empirical findings

The empirical findings presented include the validity tests, reliability tests, normality tests, correlation and regression analysis.
Table 7 below represent the reliability test analysis.

Table 7: Reliability tests.

	N	Cronbach's Alpha	N of Items
Fairness and equality principle	324	.754	3
Transparency principle	324	.854	3
Accountability principle	324	.707	3
Responsibility principle	324	.757	4
Financial performance	324	.881	8
Corporate Governance	324	.821	13

Table 7 shows the results of the reliability tests for the variables using Cronbach's alpha. The variable is considered internally consistent when Cronbach alpha for each variable is greater than 0.70 (Ab Hamid, Sami & Sidek, 2017; Taber, 2018). The results obtained for each variable using the Cronbach alpha shows that they are greater than 0.70. Therefore, the fairness and equality principle, transparency principle, accountability principle, responsibility principle, and financial performance is reliable.

The normality test analysis is represented by table 8 below.

Table 8: Normality tests

	Skewness			Kurtosis		
	Statistic	Std. Error	Ranges	Statistic	Std. Error	Ranges
Fairness and equality principle	-0.794	0.205	-3.873	0.883	0.34	2.597
Transparency principles	-0.812	0.205	-3.961	0.649	0.34	1.908
Accountability principle	-0.761	0.205	-3.712	0.556	0.34	1.635
Responsibility principle	0.419	0.205	2.0439	1.297	0.34	3.814
Financial performance	-0.85	0.205	-4.146	1.338	0.34	3.935

Table 8 shows the results of normality tests using skewness and kurtosis. For a sample size greater than 50, the accepted ranges required for normality distribution for skewness and kurtosis are between -3.96 and +3.96

(Kim & White, 2004; Kollo, 2008). The statistics were divided by the standard error to obtain the range values. The ranges values for skewness and kurtosis shows that the dataset for fairness and equality principle, transparency principle, accountability principle, responsibility principle, and financial performance are normally distributed.

The KMO and Bartlett's test is represented by table 9 below.

Table 9: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.812
Bartlett's Test of Sphericity	Approx. Chi-Square	1473.103
	Df	78
	Sig.	.000

Table 9 shows the results of KMO and Bartlett's test, which were used to establish the validity of the variables. KMO greater than 0.70 and statistically significant of Bartlett's sphericity test is acceptable to confirm the results' validity (Şahan, Baydur & Demiral, 2019; Özdeni & Aktura, 2020). The KMO obtained for the variables was 0.812, greater than 0.70, and the statistically significant results for Bartlett's sphericity test confirm the variables' validity.

Table 10 below represent the correlation analysis among the variables.

Table 10: Correlation analysis

		1	2	3	4	5
(1) Financial performance	Pearson Correlation	1	.233**	.288**	.429**	.520**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	324	324	324	324	324
(2) Fairness and equality principle	Pearson Correlation	.233**	1	.459**	.271**	.443**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	324	324	324	324	324
(3) Transparency principle	Pearson Correlation	.288**	.459**	1	.318**	.513**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	324	324	324	324	324
(4) Accountability principle	Pearson Correlation	.429**	.271**	.318**	1	.604**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	324	324	324	324	324
(5) Responsibility principle	Pearson Correlation	.520**	.443**	.513**	.604**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	324	324	324	324	324

**. Correlation is significant at the 0.01 level (2-tailed).

Table 10 shows the correlation results which show the relationship between financial performance and corporate governance principles (fairness and equality principle, transparency principle, accountability principle, and responsibility principle). The results show that a positive and significant relationship exists between financial performance and fairness and equality principles, transparency principles, accountability principles, and responsibility principles.

The results from the matrix correlation analysis were used to establish the presence of multicollinearity if the fairness and equality principle, transparency principle, accountability principle, and responsibility principle, which are independent, strongly correlate with each other. The coefficients estimation between the fairness and equality principle, transparency principle, accountability principle, and responsibility principle in the matrix correlation are confirmed to be strongly correlated if it is greater than 0.70 (Windisch et al., 2003; Shrestha, 2021).

The results show no multicollinearity between the fairness and equality principle, transparency principle, accountability principle, and responsibility principle, which are the independent variables since none of the correlation between them is greater than 0.70.

Regression Analysis

The hypothesis of the study was tested by using the multiple regression model.

The regression results are presented below.

Table 11A represent the model summary of corporate governance.

Table 11A: Model summary for corporate governance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.506[a]	.256	.254	.61520

a. Predictors: (Constant), corporate governance

Table 11A shows the summary of the regression model. The R-square of 25.6% indicates that corporate governance influences financial performance by 25.6%. Other factors also influence financial performance apart from the variables used in the study. Corporate governance influences financial performance of SMEs in Ghana by 25.6%. This indicates that corporate governance is significant to the improvement of financial performance of these SMEs but does not contribute wholly to financial performance or corporate governance is not the only factor that affects the financial performance of these SMEs.

The ANOVA results for corporate governance is represented by table 11B

Table 11B: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	41.915	1	41.915	110.751	.000[b]
	Residual	121.866	322	.378		
	Total	163.781	323			

a. Dependent Variable: financial performance

b. Predictors: (Constant), corporate governance

Table 11B shows the results of the ANOVA, which is used to determine the model's fitness and the corporate governance's overall effect on financial performance. The statistically significant result for ANOVA shows that the model is fit and that corporate governance overall affects financial performance.

The results of coefficients for corporate governance are represented by table 11C.

Table 11C: The effect of corporate governance on financial performance.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.691	.312		2.213	.028
	Corporate governance	.789	.075	.506	10.524	.000

a. Dependent Variable: financial performance

The study found that corporate governance (β = 0.789, P = 0.000) positively and significantly affects financial performance. The findings imply that for every unit increase in corporate governance, a.789 unit increase in financial performance is predicted, holding all other variables constant. The results also show that the probability value for corporate governance (P =0.000) is less than 5%, indicating a significant effect of corporate governance on financial performance. The alternative hypothesis was accepted for corporate governance.

Table 12A represent the model summary of fairness and equity principle.

Table 12A: Model summary for Fairness and equality principle

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.233[a]	.054	.051	.69354

a. Predictors: (Constant), fairness and equity

Table 12A shows that fairness and equality principle influence financial performance by 5.4%.

Table 12B represents the ANOVA results of fairness and equity principle

Table 12B: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.898	1	8.898	18.500	.000[b]
	Residual	154.883	322	.481		
	Total	163.781	323			

a. Dependent Variable: financial performance

b. Predictors: (Constant), fairness and equity

The statistically significant results for ANOVA show that the model is fit and that fairness and equality principle overall affects financial performance.

Table 12C represents the estimated coefficients of equity and fairness principles against financial performance.

Table 12C: The effect of fairness and equity principle on financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.327	.381		6.105	.000
	Fairness and equality principle	.362	.084	.233	4.301	.000

a. Dependent Variable: financial performance

The result shows that the fairness and equality principle ($\beta = 0.362$, $P = 0.000$) positively and significantly affects financial performance.

The results show that for every unit increase in fairness and equality principle, a .362 unit increase in financial performance is predicted, holding all other variables constant. Since the probability values for the fairness and equality principle ($P = 0.000$) are less than 5%, the alternative hypothesis for the fairness and equality principle was accepted, indicating a statistically significant effect on financial performance.

Table 13A represent the model summary of transparency principle.

Table 13A: Model summary for transparency principle

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.288[a]	.083	.080	.68287

a. Predictors: (Constant), transparency principle

Table 13A shows that transparency principle influences financial performance by 8.3%

Table 13B is the ANOVA results for transparency principle.

Table 13B: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	13.630	1	13.630	29.229	.000[b]
1	Residual	150.152	322	.466		
	Total	163.781	323			

a. Dependent Variable: financial performance

b. Predictors: (Constant), transparency principle

The statistically significant results for ANOVA show that the model is fit and that transparency principle overall affects financial performance.

The coefficients of transparency principle are represented by table 13C below.

Table 13C: The effect of Transparency principle on financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.195	.328		6.687	.000
	Transparency principle	.416	.077	.288	5.406	.000

a. Dependent Variable: financial performance

The results show that the transparency principle (β = 0.416, P = 0.000) positively and significantly affects financial performance. The results imply that for every unit increase in the principle of transparency, a .416 unit increase in financial performance is predicted,

holding all other variables constant. The probability value for the transparency principle (P = 0.000) is less than 5%.

Therefore, the alternative hypothesis is accepted and the null hypothesis is rejected. The findings concluded that the transparency principle has a statistically significant effect on financial performance.

Table 14A is the model summary of accountability principle.

Table 14A: Model summary for accountability principle

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.429[a]	.184	.182	.64419

a. Predictors: (Constant), accountability principle

Table 14A shows that accountability principle influences financial performance by 18.4%

The ANOVA results of accountability principle is represented by table 14B.

Table 14B: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	30.158	1	30.158	72.672	.000[b]
	Residual	133.624	322	.415		
	Total	163.781	323			

a. Dependent Variable: financial performance

b. Predictors: (Constant), accountability principle

Table 14B shows the ANOVA results for accountability principle. The statistically significant results for ANOVA show that the model is fit and that accountability principle overall affects financial performance.

The coefficients values for accountability principle are represented by table 14C below.

Table:14C: The effect of accountability principle on financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.332	.194		12.020	.000
	Accountability principle	.423	.050	.429	8.525	.000

a. Dependent Variable: financial performance

The study found that the accountability principle (β = 0.423, P = 0.000) positively and significantly affects financial performance.

The findings imply that for every unit increase in accountability principle, a .423 unit increase in financial performance is predicted, holding all other variables constant. The results also show that the probability value for the accountability principle (P =0.000) is less than 5%, indicating a significant effect of the accountability principle on financial performance. The alternative hypothesis was accepted for the accountability principle.

Table 15A represent the model summary of responsibility principle.

Table 15A: Model summary for responsibility principle

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.520[a]	.270	.268	.60936

a. Predictors: (Constant), responsibility principle

Table 15A shows that responsibility principle influences financial performance by 27%.

Table 15B represent the ANOVA result for responsibility principle.

Table 15B: ANOVA results for responsibility principle

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	44.217	1	44.217	119.081	.000[b]
	Residual	119.564	322	.371		
	Total	163.781	323			

a. Dependent Variable: financial performance

b. Predictors: (Constant), responsibility principle

Table 15B shows the ANOVA results for responsibility principle. The statistically significant results for ANOVA show that the model is fit and that responsibility principle overall affects financial performance.

Table 15C represent the coefficients results for responsibility principle.

Table 15C: The effect of Responsibility principle on financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.863	.195		9.556	.000
	Responsibility principle	.527	.048	.520	10.912	.000

a. Dependent Variable: financial performance

The results from the table show that the responsibility principle (β = 0.527, P = 0.000) has a positive and significant effect on financial performance.

The findings imply that for every unit increase in the principle of responsibility, a.0527 unit increase in financial performance is predicted, holding all other variables constant.

The alternative hypothesis for the responsibility principle was accepted because the probability value (P= 0.000) is less than 5%. The results established a statistically significant effect of the responsibility principle on financial performance.

CHAPTER V

Discussion

Literatures of previous studies suggests that corporate governance practices affect business performance (Dziba, 2015; Asumadu, 2021; Asunka, 2017; Ahmed, 2017; Padi & Alhassan, 2022; Abor & Quartey, 2010; Abor & Adjasi, 2007; Afrifa & Tuaringana, 2015; Mahzan & Yan, 2014).

The study examined the effect of corporate governance principles on SMEs financial performance. The analyzed result shows that fairness and equality principles support the hypothesis that fairness and equality principles have a positive effect on SMEs financial performance. This result supports the studies carried out by Soelton et al. (2020; Parinduri et al., 2019; Lukman & Irisha, 2020; Felmania, 2014). This result is consistent with the stakeholder theory that has been used as the theoretical foundation of the study. The stakeholder theory states that all stakeholders should be treated fairly. It also suggests that, there should be fair distribution of benefits between shareholders and all those who have stake in the business.

The result also shows that the transparency principle positively affects financial performance of SMEs in Ghana. This result supports various studies carried out by various corporate governance and business performance measures (Zehir et al., 2016; López-Arceiz et al., 2018; Oino, 2019; Adiloglu & Vuran, 2012). Providing information both financially and non-financially by businesses to the various stakeholders gives them the opportunity to attract the needed capital to run their business. This result affirms the concept of the stakeholder theory which states that provision of needed information to stakeholders boost their confidence of investment.

The result of this study also shows that the principles of accountability and responsibility have a positive impact on SMEs financial performance. This result is consistent with the studies by Laka et al. 2020; Tamvada, 2020; Suharyono, 2019; Christensen & Lgreid, 2015).

When businesses are held accountable, trust is developed among all parties involved, this strengthens relationships between a company and constituents. The owners of various SMEs should act responsibly as their actions have an impact on the operations of their business. Executive authority rests with the management and managers of the business (Fryxell & LO,2003).

This means that those with authority to make decisions in the business are to be held accountable for all their actions. It means they should prepare to be scrutinize for their behaviors and actions.

Management and managers running the affairs of the business should act ethically and responsibly by making sure that the interest of the business and that of all other stakeholders are protected. Attention should be paid to value creation for the various individuals who contribute their quota to the growth of the business.

Acting responsibly and ethically by those with authority in the business will help protect the image of the business. This will help create good reputation for the business.

According to Donaldson and Preston (1995), this paradigm prioritizes managerial decision-making because it treats all stakeholders' interests equally important.

The research followed a similar line of study, but this time the author attempted to disentangle the impact of each corporate governance concept on business success by breaking down the factors involved. The hypotheses that each of the four tenets of good corporate governance (equality and fairness, transparency, accountability, and responsibility) would positively impact company performance were accepted. The result also shows that corporate governance as a whole have a positive and significant impact on SMEs financial performance. This is consistent with studies by (Padi & Alhassan, 2022, Ansong,2015, Dziba, 2015).

Practical Implication of the Study

From the above results and discussions, the study results if adopted by the various SMEs in Ghana, it will help them to get access to the needed capital to expand their business.

Information is vital in every business success. Transparency and financial disclosure of vital information of the various SMEs to various stakeholders will help these stakeholders make informed decisions. Transparency and information disclosures allow firms to attract good capital at the right cost to expand their operations and improve their financial performance (Abor & Adjasi, 2007). Businesses, no matter the size of its operations should be able to provide both financial and non-financial information to various stakeholders. Shareholders and potential shareholders make decisions based on the information they have on a particular business. The available information helps them to know whether to continue their investment or not. Potential stakeholders also make decisions to invest in a particular business base on the information they have on that particular business.

The result will also benefit owners of SMEs in a way of strengthening the relationship between them and the various stakeholders. Good relationship among stakeholders and a business is a great sign of success.
The individuals who have stake in the business contribute towards the growth of the business. The study result shows that fairness and equality have a positive impact on SMEs financial performance. Thus, treating all stakeholders fairly and equally will promote the growth of the various aspect of SMEs business operations which will have a positive impact on its financial performance. This can be done through receiving and paying attention to stakeholder's views and ideas and involving stakeholders in various meetings. Stakeholders such as customers are very important to the success of every business. When customers views are treated well, it helps the business to develop new ways to develop their products to suit their customers' needs and this will help boost their sales which will lead to increase in their profit.

The results of the study will also guide owners of SMEs in making decisions that will help improve their financial performance. The result of the study shows that the four main principles of corporate governance have a significant impact on financial performance of SMEs in Ghana. The application of these principles of corporate governance will provide guidance in making decisions. The principles of corporate governance will guide these

owners of SMEs to adhere to sound corporate governance practices and this will help them make sound decisions.

In a nutshell, the adherence of sound corporate governance by the SMEs in Ghana will benefit them but not limited in the following ways; Sound corporate governance will help create transparency among the SMEs and the various stakeholders, It will help build trust among investors and the various stakeholders, corporate governance will help provide investors and stakeholders with clear ideas of their business operations and directions, sound corporate governance practices can facilitate raising of capital.

Theoretical Implication of the study

This study will contribute to the theoretical knowledge of previous studies in the following ways:

This study makes a significant methodological contribution by identifying and measuring corporate governance principles pertinent to the dynamics of SMEs in Ghana. Several corporate governance measures designed for large corporations have been employed in most studies of SMEs. The direct correlation between corporate governance and the financial performance of SMEs is often studied with measures of corporate governance such as board size, female participation on the board, managerial competencies, and board composition all being taken into account.

The performance of SMEs is studied in relation to corporate governance principles such as accountability, responsibility, fairness, equity, and transparency. This study will contribute to the knowledge of how adhering to these standards affects SMEs in Ghana bottom line.

This study develops a framework linking sound corporate policy with higher bottom lines for medium and small businesses. It synthesizes several perspectives on the causal relationship between a company's commitment to accountability, transparency, responsibility, justice, and equity and its bottom line.

The knowledge contribution of this study is the use of measures that fit the meaning of SMEs in Ghana. Most studies related to this study used measures that mostly fit large companies for the study of corporate governance in SMEs. This study contributes heavily to vast body of knowledge by exploring alternative measures that fit corporate governance practices in SMEs.

CHAPTER VI

Conclusions and Recommendations

Conclusions

Many studies have underlined the importance of corporate governance concepts and practices, but few have included SMEs. Gaining an edge in today's global business climate largely depends on sound corporate governance principles. SMEs in Ghana are vital to economic growth since they provide new jobs and contribute substantially to GDP. Companies in this sector would do well to devote significant resources to improving their corporate governance.

This research confirms that adhering to principles of justice and equality in corporate governance has a substantial and beneficial effect on the financial performance of SMEs. This finding accords with stakeholder theory which states that all interested parties, including shareholders, must be given due consideration. For example, if contributors to the business's finances are treated relatively by providing them with the necessary information and data, it will improve access to finance. If stakeholders such as customers are treated fairly and given good customer service, they will patronize the business's products, which will boost revenue and go a long way toward improving profit. This means that general assembly meetings should be held regularly to receive and review information to aid research and development.

The result also revealed that transparency as a principle of corporate governance has a positive and significant impact on the financial performance of SMEs. Finally, the results also found that accountability and responsibility principles are positively associated with the financial performance of SMEs. In effect, the result of the study showed that the four main principles of corporate governance have significant and positive effects on the financial performance of SMEs in Ghana.

Recommendations

The study recommends the following based on the findings and conclusions:

1. Owners and managers of SMEs should improve their stakeholder relations through frequent general assembly meetings among the various stakeholders, and they should also receive and treat information from various stakeholders with attention. The various stakeholders will contribute their ideas towards the growth of their business and will also boost access to external sources of financing.

2. In order to maintain an air of openness and trustworthiness with their stakeholders and shareholders, business owners and managers of SMEs should have an annual financial statement prepared for distribution. They must report the company's financial and other pertinent matters to stakeholders and advisors for effective decision-making. Management fails to make informed judgments because of a dearth of data.

3. Owners and managers of various SMEs should ensure the accountability of their operations to the various stakeholders. This builds trust and boosts investors' confidence. They should issue a fair and transparent formal report, maintain sound risk management, and have strong internal controls. Owners of various SMEs should also be separated from the managers' duties to ensure proper accountability.

4. Owners and managers of various SMEs should establish independent advisory boards to steer the affairs of their businesses. The advisory boards should hold meetings regularly to address business issues. These advisory boards will contribute their ideas to the development of the business without bias.

5. The study was limited to only greater Accra, the study recommends that future studies should explore other parts of the country.

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Appendices

Appendix A

QUESTIONIARES FOR OWNERS/MANAGERS OF SMEs

Dear Respondent,

This study is part of a Master's thesis study seeking information on "**CORPORATE GOVERNANCE PRACTICES IN SMES AND ITS IMPACT ON PERFORMANCE-A CASE OF REGISTERED SMES IN GHANA**". I am kindly inviting your participation in this study, which will involve a questionnaire survey. The survey is completely confidential and is for scientific purposes only and will be kept confidential. **Your participation is completely voluntary** and you may stop taking part at any time you wish. The survey should take about 10 minutes to complete. There are no right or wrong answers. Candid responses based on your personal thoughts are greatly appreciated. If you have any questions concerning the research study, please feel free to contact us using the information stated below.

Thank you in advance for your cooperation and assistance.

Research Team:

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SECTION A
Instruction: Please indicate the correct option using (X) for each of the below statements;

Demographic Details						
1	Type of Business	(Please state) …………………………………………………………………				
2	Company size	Small	Medium			
3	Age of business	Less than 1 year	1-3 years	3—6 years	7-10 years	More than 10 years
4	Respondent's year of experience in the sector	Less than 1 year	1-3 years	3—6 years	7-10 years	More than 10 years
5	Education level	Bachelor	Master	PHD	Other……….. (Please state)	
6	Position	Manager/Owner	Advisory Board Member	Other……….		
7	Registration Status	Legally registered			Not registered	

SECTION B

Corporate Governance Principles: Evaluate the following questions according to your company, and put a cross (X) in the most appropriate option.

(1= Strongly Disagree 2= Disagree 3=Uncertain/Don't Know 4= Agree 5= Strongly Agree)

• **Fairness and Equality Principle**	1	2	3	4	5
1.In our company, general assemblies are held duly.					
2. Minority rights are protected in our company.					
3.Our company respects the right to receive and review information.					

	• **Transparency Policy**	1	2	3	4	5
4	In our company, public statements are made frequently.					
5	Related parties in our company are disclosed to the public.					
6	In our company, information is presented electronically.					

• **Accountability principle**	1	2	3	4	5
7. Our company has a human resources policy.					
8. Our company has company policies for stakeholders.					
9. Social responsibility is given importance in our company					

	• **Principle of Responsibility**	1	2	3	4	5
10	A corporate governance committee has been established in our company.					
11	. Financial rights provided to the advisory board in our company are known.					
12	Board meetings are held regularly in our company					
13	The committees formed in our company's advisory board are independent					

Performance: Evaluate the following questions according to your main competitor and put a cross (X) on the most appropriate option.
(1- Very low 2- Low 3- at the same level 4- High 5- Too high)

	• **PERFORMANCE**	1	2	3	4	5
1	Our total revenue					
2	Our net profit before tax					
3	Our profitability					
4	Our market shares					
5	Our number of employees					
6	Number of our customers					
7	Number of new products we introduced to the market in the last three years					
8	The revenues we have obtained from the new products we have introduced to the market in the last three years are added to our total revenues rate.					

SOURCE:

Karabulut, T., Civelek, M. E., Başar, P., Oz, S. & Küçükçolak, R. A. (2020). The Relationships
Among Corporate Governance Principles and Firm Performance. Maliye ve Finans Yazıları ,
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PERMISSION TO REQUEST FOR A QUESTIONNAIRE/ Soru sorma izni

Inbox

S

seth Ansaful <sethansaful88@gmail.com> Apr 19, 2023, 10:45 AM (5 days ago)

to ecivelek@ticaret.edu.tr

Hi, Good Evening. I am a student of Near East University- Nicosia Cyprus. I am writing a thesis on corporate governance principles in fulfilment of an MBA program. It is the requirement of my department to ask for permission to use the previously tested questionnaire of previous studies. I am writing to ask for your questionnaire used in your topic" **The relationship among corporate governance principles and firm performance**" published in the journal Maliye Ve Finans Yazilari 2020 pp 114, 401-418. Please I need the questionnaire and your permission to use it. Please treat it as urgent. Thank you.

Merhaba iyi akşamlar. Yakın Doğu Üniversitesi- Lefkoşa Kıbrıs öğrencisiyim. Bir MBA programının yerine getirilmesinde kurumsal yönetim ilkeleri üzerine bir tez yazıyorum. Daha önce denenmiş ve daha önce yapılmış çalışmalara ait soru formunun kullanılması için izin alınması bölümümün gereğidir. Maliye Ve Finans Yazıları 2020 s 114, 401-418 dergisinde yayınlanan "Kurumsal yönetim ilkeleri ve firma performansı arasındaki ilişki" konunuzda kullanılan anketinizi sormak için yazıyorum. Lütfen anketi kullanmak için izninize ihtiyacım var. Lütfen acil olarak değerlendirin. Teşekkür ederim.

S

ecivelek@ticaret.edu.tr

Mustafa Emre Civelek Apr 19, 2023, 11:07 AM

to me

Of course, you can use it.

NEAR EAST UNIVERSITY

SCIENTIFIC RESEARCH ETHICS COMMITTEE

04.05.2023

Dear Seth Ansaful

Your application titled **"Corporate Governance Practices in Small and Medium Enterprises and Its Impact on Performance: A Case Study of Registered Small and Medium Enterprises in Ghana"** with the application number NEU/SS/2023/1603 has been evaluated by the Scientific Research Ethics Committee and granted approval. You can start your research on the condition that you will abide by the information provided in your application form.

Prof. Dr. Aşkın KİRAZ

The Coordinator of the Scientific Research Ethics Committee

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