

LEADERSHIP AND CORPORATE GOVERNANCE OF SMALL AND MEDIUM ENTERPRISES (SMES) IN SOUTH AFRICA: PUBLIC PERCEPTIONS

*Lawrence Mpele Lekhanya**

Abstract

The main, underlying constraint to the growth of Small and Medium Enterprises (SMEs) is a lack of corporate governance (CG) structure (Mahmood 2014). In considering the UK- Department for Business Innovation and Skills report (2012), this constraint is described as one of the fundamental problems holding back the growth of SMEs. The report states it is this lack of leadership and management capability that should be present, to drive performance and enable them to succeed. However, statistics support the indispensable role that SMEs perform in a country's economy and when the significance of this sector is taken into account, the role that CG and its practices play within SMEs has to be clearly understood (Le Roux, 2010). Due to SMEs survival and growth being dependant on their good business leadership and corporate governance, the ability to lead, manage, and take full advantage of the resources available have, in recent years, been highlighted on global public platforms and the media. It has further been acknowledged, through prior research studies on SMEs that, for a business to be successful, the critical role of leadership and good CG has to be fully understood. The purpose of this paper is to report on South African public perceptions of leadership and corporate governance of SMEs. The study aimed to analyse and evaluate these perceptions towards SME owner/managers and their consequences, on the survival and growth of SMEs. A mixed method approach allowed for qualitative and quantitative techniques in collecting data from individual participants, with primary data collected from nine provinces of South Africa, and 180 participants as the sample. The research instrument consisted of closed-ended, questionnaires made up of 5-point Likert scale responses and 20 questionnaires were distributed to each province. Delivery of the questionnaires was done through email to individual respondents, with follow-up via telephone calls. The research findings indicate that most respondents believed that the growth and survival of SMEs is, due to the lack of business leadership and poor CG. In addition, respondents agreed that SME owners/managers are just average entrepreneurs, as they do not have leadership qualities or skills and that CG does not exist in many SMEs, particularly in South Africa. The paper's benefit will be to the owners/managers of SMEs, as well as, policy makers and financial agencies for SMEs. It is recommended that further research, with a larger sample size, be drawn from various townships.

Keywords: Corporate Governance, Public Perceptions, Small and Medium Enterprises, SME, Leadership, South Africa

**Department of Public Management & Economics, Durban University of Technology, South Africa*

1 Introduction

The most essential factors that influence SMEs' survival and growth have been identified as leadership behaviour, skills and qualities of leaders of SMEs (Arham 2014). SME owner/manager's leadership behaviour plays a major role in determining the directions that should be followed by employees, and articulating a clear vision of business goals (Matzler, Schwarz, Deutinger & Harms 2008). This sentiment, that the style adopted by leaders can influence business performance, is echoed by Mohamad & Amran (2013), who maintain that the leaders are responsible for the business operations of the organization. CG is part of what leadership involves,

by firstly providing direction and control of the company through good governance, while simultaneously managing the relationship between the corporate management, board of directors, controlling shareholders, minority shareholders and other stakeholders (International Finance Corporation (IFC), 2014). Although better CG of SMEs is positively linked to their growth and long-term sustainability (OECD, 2010), and is an undeniably, important ingredient to their success, it is not a panacea to all problems faced by SMEs. The benefits of better governance are found in improved access to finance for SMEs in addition to ensuring their sustainability and support for better financial performance. A CG framework is describes by SMEs South Africa (2014),

as the set of policies, rules and procedures put in place and agreed on, by the business' main shareholder which, most likely, is the entrepreneur. Due to businesses being most in need of some kind of structure, as the company grows, this framework is a necessity in assisting with the transparency, accountability, ethical behaviour and, eventually, profitability within the business. How the firm manages and mobilizes its resources is crucial to the competence of a small firm, which is made possible through CG (Banerjee 2005). It is through weak CG of small firms, and the added burden of the poor availability of such crucial factors, that these firms have been made extremely vulnerable to closure.

2 Problem statement

The May 2011 Global Entrepreneurship Monitor (GEM, 2011) report states that South Africa's small business landscape is neither showing progressive changes, nor have enough start-ups been realised or are there enough surviving and growing small businesses. The main, underlying constraint to their growth, according to Mahmood (2014), is a lack of corporate governance (CG) structure. Statistics show that the role SMEs perform in a country's economy is indispensable and with the significance of these enterprises, a thorough understanding of the role that CG and its practices play within SMEs is becoming a fundamental requirement (Le Roux, 2010). A fundamental problem, that inhibits the growth of smaller and medium sized organisations, is highlighted by The UK- Department for Business Innovation and Skills report (2012) as the lack of leadership and management capability, which can drive performance and enable them to succeed.

3 Aim and objectives

3.1 Aim

The analyses and evaluation of public perceptions of leadership and CG, towards SME owner/managers in South Africa, is the principal aim of this study, which also looks at the implications these have on the survival and growth of SMEs.

3.2 Objectives

- To investigate and acquire an introductory understanding of the public perceptions of SME leadership and CG in South Africa.
- To ascertain which factors influence the public perceptions of SMEs leadership and CG in South Africa.
- To suggest ways in which SME leadership and CG can be improved.

4 Literature review

The size of the business and the structures that emerge as the organisation develops, are coupled with leadership and management capacity in SMEs (CIPd, 2014). It is therefore suggested that the leadership behaviour of top management in SMEs, can strongly impact a firm's innovativeness and performance (Matzler et al. 2008). According to Clover & Darroch (2005), the lack of management capacity in SMEs is indicated as a major problem for their survival and growth, particularly in South Africa. In order to enhance or improve organizational performance, leaders must not only understand the rapidly changing business scenario, but Hayat & Riaz (2011) maintain they must also be capable of adopting the appropriate leadership styles.

Findings show that leadership is important in the success of entrepreneurial firms and that entrepreneurs, who are capable of demonstrating effective leadership behaviour, are more likely to enhance their entrepreneurial success (Arham, Boucher & Muenjohn, 2013). This is supported by Nave (2006), who states that, the success or failure of the business is dependent on the leadership styles employed by leaders. With there being a consensus, regarding the difference between management and leadership, Ofori & Toor (2012) maintain that skills in both management and leadership must be combined by the entrepreneur. Since it is important for SME owners/managers to be good leaders, their leadership capabilities should be improved. According to Goehrig (2008) the role of leadership lies in creating a sustainable and realistic business environment and changes to existing business structures are needed to change the business outcome. This also includes having an understanding of this by executives, consultants and management leaders, along with the implementing of new strategies. Substantive growth capabilities, shaped by the upstream issues of leadership and capability development, facilitate SME growth (Lockett, Hayton, Ucbasaran, Mole & Hodgkinson, 2013).

CG involves a set of associations and interactions between a company's management, its board, its shareholders and other stakeholders, according to The Dubai SME report (2014). In addition, CG makes the structure available, through which the objectives of the company are set, over and above providing the means of achieving those objectives and determining performance monitoring. The most appropriate definition relevant to SMEs is held by Abou-El-Fotouh (2014), who states that CG is a set of rules, regulations and structures, with the aim of achieving optimum performance, in order to achieve corporate objectives. This can, according to the author, be attained through implementing appropriate and effective methods. CG therefore, refers to the internal disciplines or systems that regulate and control the relationships among 'key

players' or entities involved in organization's performance. The organization's sustainability in the long term is supported in the process, while responsibility and accountability is also established through CG. In emerging markets, CG is found to be ineffective by Yurtoglu & Claessens (2012), who postulate that, countries do not always reform their CG frameworks to achieve the best possible outcomes, which impacts developing countries' SMEs.

South Africa has the required framework and legislation in place to enable the co-ordination of good governance, according to Le Roux (2010), who also points out that support systems and quality administration are absent. The critical challenge remains the overcoming and securing of good governance for the SME sector in South Africa. The principle that the regulatory authorities need to develop strong and effective CG mechanisms and policies for the entire sector, is supported by Changezi & Saeed (2014), who state that CG directly influences organizational performance. Despite the CG codes efforts and recommendations, more specifically the Kings 111 report, it has been stated that, in all sectors of the economy, South Africa appears to be continuing to experience poor governance practices (Johnston, 2005).

Companies may very well achieve strategic, tactical and operational efficiency, owing to their embracing good CG principles, as described in CG literature; however, this includes risk management and

control mechanisms (Mahzan & Yan, 2014). Specific and simple SME governance arrangements are needed to reflect their individual form and architecture, which according to Clarke (2006), embraces the high proportion of family-based firms, with a compelling intersection of managers and owners.

Global literature advocates for the adoption of sustainable CG Norms within the SME sector, according to Dube, Dube & Mishra (2011). While the relationship between governance and company performance is often stressed within the context of large companies, Hamad (2011) finds that not many of those studies deal with this relationship, in the context of the SME sector in emergent countries and most of the studies that deal with the governance question have largely overlooked this issue, with respect to SMEs. Good CG is believed by Khoza (2007) to be of critical importance for global social and economic development.

5 Research methodology

A major source of information, from which to formulate the research questionnaire, was the literature review, which consisted of both closed- and open-ended questions, with a 5-point Likert scale as response alternative. A summary of the key questions covered by the questionnaire is set out in Table 1 to reflect the research area and its related questions:

Table 1. Key question summary

Research Area	Question
Leadership behaviour	Leadership behaviour of SME owners/managers affects the survival and growth of the firm.
Leadership skills	Leadership skills of SME owners/managers have an impact on firm performance.
Leadership qualities	Leadership qualities of SMEs have an impact on firm performance.
Limited CG	Limited CG in SMEs affects the performance of the firm.
SMEs CG orientation	SMEs lack CG orientation in their structure.
Unqualified members	Unqualified members of CG of SME business hinder their success.

5.1 Target population

Primary data were collected from 180 respondents, regarding their public perceptions of SME leadership and corporate governance and their implications on the performance of SME owners/managers by means of a questionnaire. The provinces of KwaZulu-Natal and Gauteng were selected for investigation and this is where the study was confined, with the selection based on their representing a large percentage of the South African business population, with proportional representation of all race groups.

5.2 Questionnaire administration

Questionnaires were simultaneously emailed to all participants individually, allowing for standardised completion conditions, while a research assistant

facilitated the follow-up. Participants were allowed seven days for completion, with identical instructions on all the questionnaires and pre-coding to prevent inconsistency in coding,

5.3 Data analysis

The analysis of data was done using the Statistical Package for Social Sciences (SPSS) version 22.0, by means of descriptive and inferential statistics. Testing of the relationship of variables was achieved by conducting a Chi-square goodness of fit test.

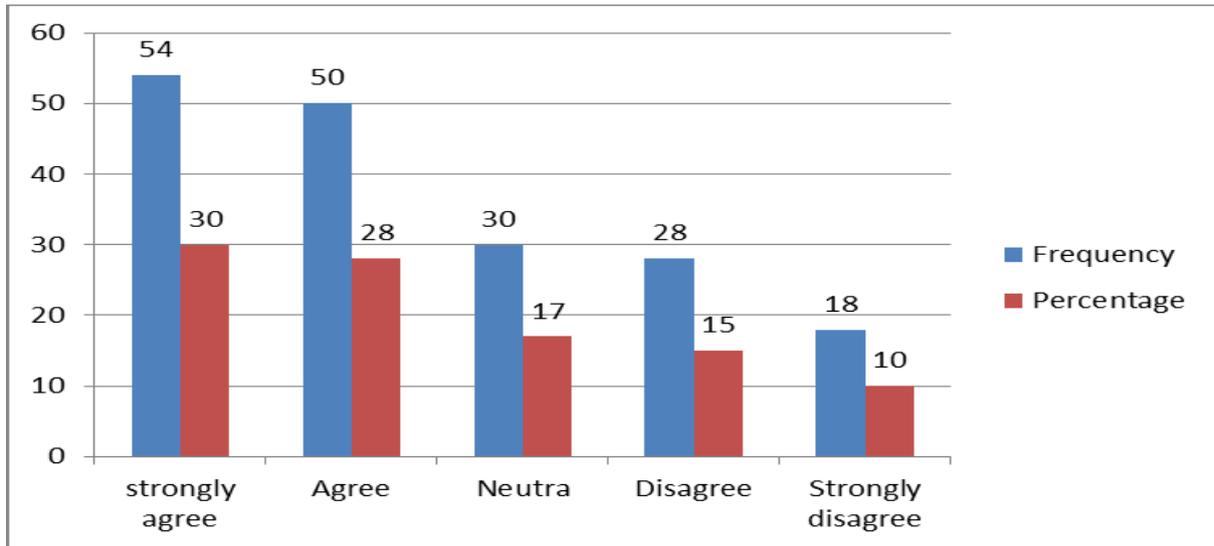
5.4 Reliability and validity

A Cronbach’s alpha of 0.75 was used to test the significance of the results, which were found to be very significant.

6 Research findings

The literature review done was explained in a previous section, as being inclusive and reflective of the public perceptions of leadership and corporate governance of SMEs in South Africa. Completed questionnaires were received from 180 respondents from different provinces (n=180) with key findings of this research revealing the following results:

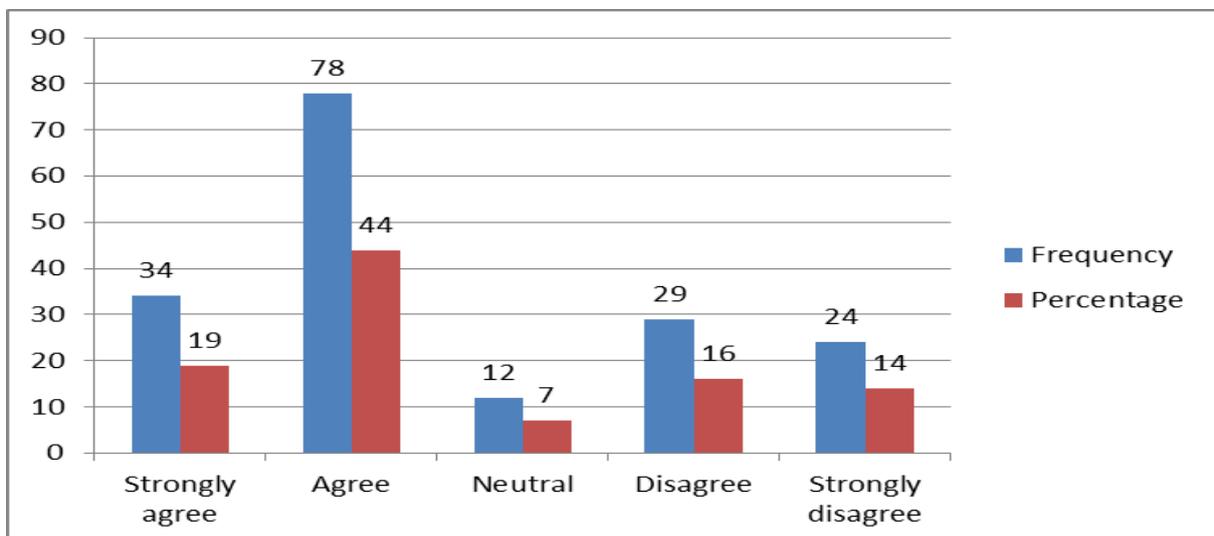
Figure 1. Leadership behaviour of SME owners/managers



On the question of whether leadership behaviour of SME owners/managers affects the survival and growth of the firm, respondents were asked to indicate on a five point Likert scale, whether they strongly agree (1) agree (2), are neutral (3), disagree (4) and strongly disagree(5) with the statement. Figure 1 shows that, more than half of the respondents who participated in the survey (58 percent), indicated their agreement with the statement, at 54 (30 percent) being

in strong agreement and 50 (28 percent) agreeing, respectively. In addition, 30 (17 percent) of the respondents do not agree or are not sure, while a small number, 28 (17 percent) and 18 (10 percent), of the respondents disagree. This finding is shown to be statistically significant by a Chi-square goodness of fit test that was conducted, (std=1.31345; mean=2.4667; p= .000).

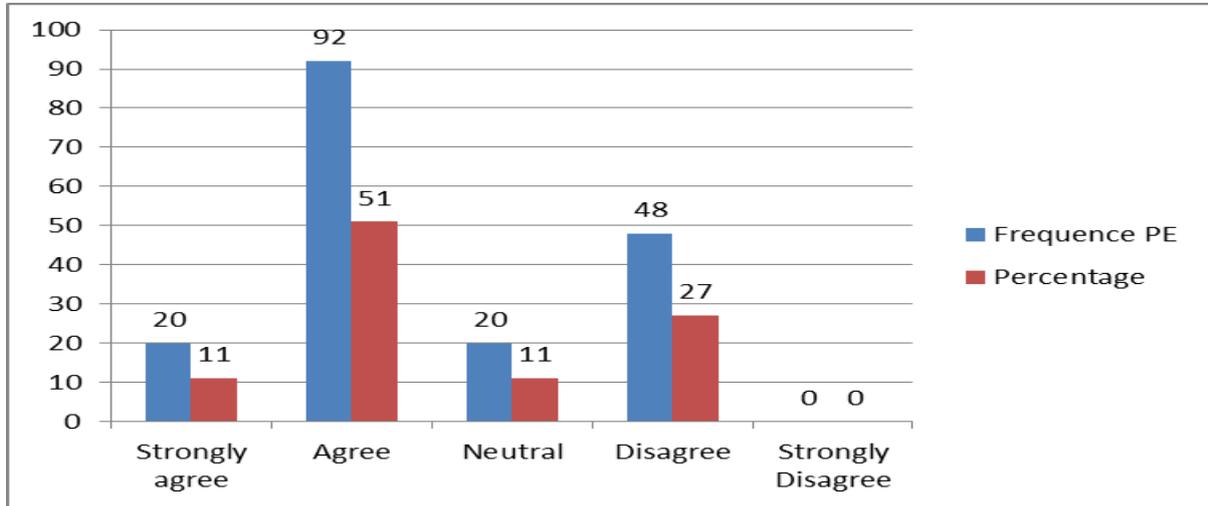
Figure 2. Leadership skills of SMEs owners/managers



The statement that leadership skills of SME owners/managers has an impact on the firm performance, is agreed to by 34 (19 percent) and 78 (44 percent) of the respondents, as illustrated in Figure 2. Only 12 (7 percent) of the respondents indicated that they were neutral regarding the statement, with almost

a third, of the respondents were in disagreement with the statement, 29 (16 percent) disagree and 24 (14 percent) strongly disagree, A Chi-square goodness of fit test was conducted and this finding was shown to be statistically significant ($\chi^2=1.40022$; $df=4$; $p=.000$).

Figure 3. Leadership qualities of SMEs



As illustrated in Figure 3, the majority of respondents, 20 (11 percent) and 92 (51 percent), agree that leadership qualities of SMEs have an impact on the performance of the firm, while 20 (11 percent) were neutral regarding the statement. Less

than half of the respondents, 48 (27 percent), disagree that leadership qualities affect the performance of the firm. The result of a Chi-square goodness of fit test showed this finding to be statistically significant ($\chi^2=1.00502$; $df=4$; $p=.000$)

Figure 4. Limited corporate governance in SMEs

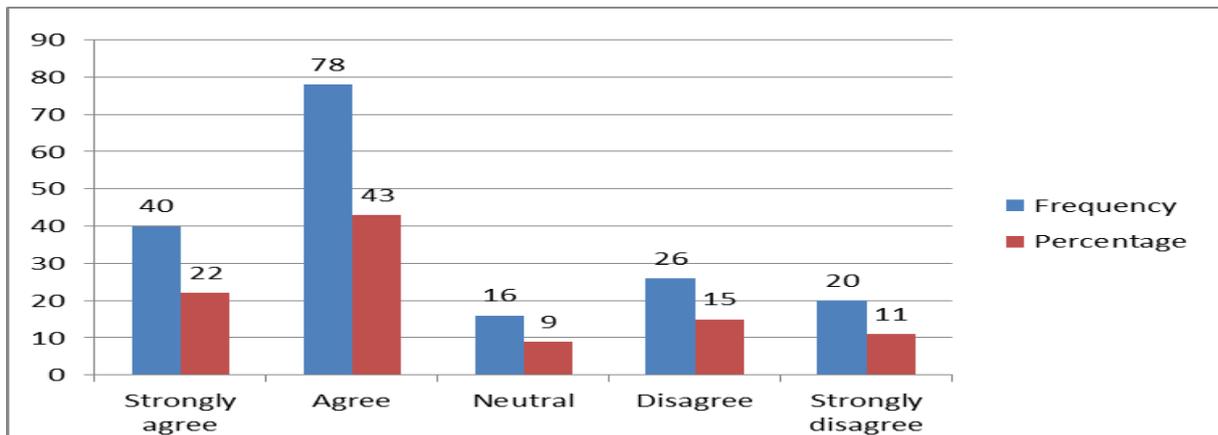
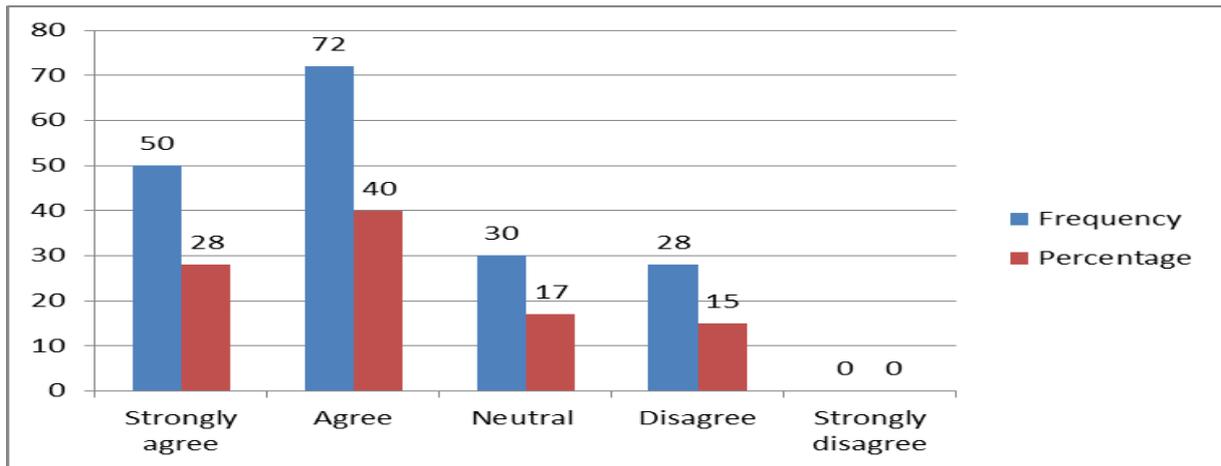


Figure 4 reflects that most of the respondents, 40 (22 percent) and 78 (43 percent), are in agreement with the statement that limited corporate governance in SMEs affects the performance of the firm. A neutral position was indicated by 16 (9 percent) about the statement, while 26 (15 percent) and 20 (11 percent)

disagree that there is limited corporate governance in SMEs, which might affect their performance. This finding is shown to be statistically significant ($\chi^2=1.28806$; $df=4$; $p=.000$) by a Chi-square goodness of fit test that was conducted.

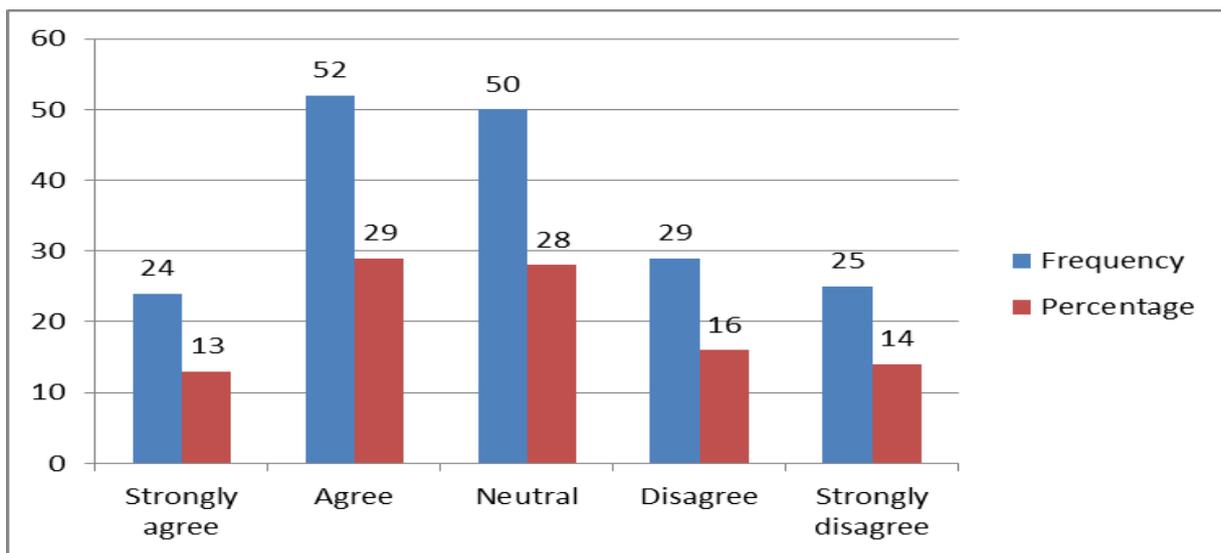
Figure 5. SMEs lack of corporate governance orientation



The findings illustrated in Figure 5 shows that 50 (28 percent) and 72 (40 percent) of the respondents agree with the statement that SMEs lack corporate governance orientation in their structures. While a small number, 30 (17 percent), of the respondents

were neutral, even less, 28 (15 percent), of the respondents disagree with the statement. This finding is shown by a Chi-square goodness of fit test to be statistically significant (std=1.01607; mean=2.2000; p= .000).

Figure 6. Unqualified members of corporate governance of SMEs



While most of the respondents, 24 (13 percent) and 52 (29 percent), are shown in Figure 6 to agree with the statement that unqualified members of corporate governance of SMEs business hinder their success, 50 (28 percent) made no clear indication whether they are in agreement with the statement or not. A small number, 29 (16 percent) and 25 (14 percent), of the respondents disagree with the statement. A Chi-square goodness of fit test was conducted and showed statistical significance for this finding (std=1.23847; mean=2.8833; p= .000)

6.1 Limitation

Respondents were not drawn from all provinces of South Africa, due to the size of the South African population and geographical profiles, and the survey was limited to only two, namely KwaZulu-Natal and Gauteng. This means the results of the study cannot be generalized to all South African provinces., Further research needs to, therefore, include a large sample from other provinces.

7 Conclusions

Leadership and good corporate governance has, in many cases, been noted as playing a vital role in the

success and growth of business. Many people are shown through this study, to believe that the higher failure rate of South African SMEs, is due to a number of critical factors, including that of leadership behaviour of SME owners/managers, a lack of leadership qualities and skills, limited CG in SMEs, and the lack of CG orientation, as well as unqualified members within their CG structures. The findings show that the majority of respondents believe most SME owners/manager should be encouraged to follow proper CG, because in the process, it will aid in building trust among financial institutions and the stakeholders. Respondents were found further to accept that there is a variety of reasons that contribute to making recruitment by SMEs of qualified members into their CG structures, more difficult. The conclusion of this study is that many of the respondents deem SME owners/managers, who tend to be the CEO, as not having any leadership qualities or suitable qualifications.

8 Recommendations

A lack of leadership and corporate governance of SMEs are found by this study, to be a major obstacle for their survival and growth, particularly in South Africa. The recommendations that follow, will be important to aid in improving the quality of leadership and to promote CG within the South African SME sector. With financial support for SMEs being provided by the South African government, it is recommended that leadership skills training should also be provided, along with assistance to SME owners/managers in recruiting qualified people as members of CG. Furthermore, government should, encourage CG, in addition to providing mentorship in the SMEs, which will build investor confidence in the SMEs and promote SMEs' human capital.

9 Implications

Issues related to three variables are included in the implications of this study, namely that of management; leadership and CG theory; and leadership and governance practice.

9.1 Managerial implications of leadership and corporate governance

The findings show that the first managerial implication for SME owners/managers in South Africa is for those who are willing to survive and sustain growth. There is some useful understanding of the role played by good leadership and CG in the performance of business, offered by this study, which further indicates that the survival of and growth of the firm are affected by leadership behaviours of SME owners/managers.

Particular attention should generally be paid by SME owners/managers to their leadership skill, knowledge

and their CG strategies in their businesses and improved, as shown by a second managerial implication. Most of the respondents are found to believe that SME owners/managers lack corporate governance orientation and the results further indicate that SMEs do not have qualified members of CG in their business leadership structures. Partnerships with government should, therefore, be encouraged, which should enable them to obtain human capital assistance and cooperation from government.

9.2 Implications for leadership and corporate governance theory

An understanding of the relevant theories that can assist in solving leadership and corporate problems faced by this sector of the economy is required by owners/managers of SMEs, and all relevant stakeholders of South African industry, in order to identify good leadership and CG within the South African SME sector. This necessitates the proposal and implementation of new concepts and theories in leadership and CG. Emphasis should be placed on the important role played by leadership and CG, in the survival and growth of the firm in South Africa. This entails the need by South African SME owners/managers to be familiar with and acknowledge the importance of leadership and CG, to the business performance.

9.3 Implication for leadership and corporate governance practice

The results of this study show, on a more practical note that, it can largely be attributed to a lack of knowledge and understanding of leadership and CG, that South African SME owners/managers do not practice the appropriate leadership concepts and good CG principles as effectively in their SMEs. This deficiency of leadership skills, qualities and knowledge of CG governance, may prevent them from engaging CG in their business structure. The practical implications of this study will therefore, benefit not only South African SME owners/managers but all stakeholders, in highlighting a new way to consider future leadership and CG

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