Corporate Governance Practice among Small and Medium Scale Enterprises (SMEs) in Ghana; Impact on Access to Credit

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Abstract

Background, Purpose and Problem Discussion

This study, Corporate Governance Practice among SMEs in Ghana; impact on access to credit, was undertaken to bring to the fore the level of corporate governance practice among Ghanaian SMEs and what impact it has had on them accessing credit. In spite of all the argument about the advantages of corporate governance and the potential economic development that it could bring to a developing country like Ghana, its practice among the SMEs is very low though that sector forms the majority of the country’s firm tissue. In tackling this topic, both the quantitative and qualitative approach was adopted. Questionnaires were circulated to 120 SMEs in the Accra, Tema and Kumasi metropolis through the convenience sampling. 100 responses were received and based on the responses received through these questionnaires; the following major findings came to the fore. While most SME stakeholders had heard about Corporate Governance, actual knowledge and adherence to modern day corporate governance principles is very low. Most SMEs still maintain the CEO/Board chairman duality. Majority of the SMEs studied did not have board committees, while some did not even know what board committees were. On the average SMEs in this study had a between 2 to 4 member boards; but only a small percentage had regular meetings i.e. quarterly. Most met semi-annually and annually. Very few of the SMEs in this study had directors who were external to them. Secondly, the study also revealed that commercial banks remains the most reliable source of funds for the SMEs, these banks do not make adherence to modern day corporate governance principles a reason for granting credit. The SMEs credit history, pledged security and cash flow were considered more important.
Conclusion

Corporate Governance practice among SMEs in Ghana is very low. Even the promise of improved access to finance, business and economic growth have not proven strong enough to make SMEs pursue strict adherence to corporate governance principles. However this phenomenon has not had any significant impact on the SMEs access to credit.
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Chapter One: Introduction

1.1 Background

Corporate governance has become a global phenomenon that continue to attract a lot of interest in business and academia, especially in the light of recent Global financial crises, which arose partly as a result of non-optimal corporate governance practices among several organizations across the globe. The catastrophic losses of financial firms which almost led to a collapse of the financial system followed by the deep global recession emphasizes the importance of corporate governance (Lang & Jagtiani, 2010).

Many researchers have established a strong link between good corporate governance and sustainable business and economic growth. Claessens et al. (2002) says that better corporate governance frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favorable treatment of all stakeholders. Corporate governance brings new strategic outlooks through external independent directors; it enhances firms' corporate entrepreneurship and competitiveness. (Abor and Adjasi, 2007). According to Bill Witherell, Director of Financial and Enterprise Affairs, OECD “good corporate governance underpins market confidence, integrity and efficiency and hence promotes economic growth and financial stability”.

The story of economic development however cannot be told without the Small and Medium scale Enterprises. Even in the advance industrial economies, the largest
employer of workers is the SME sector and not the multinationals. (Mullineux, 1997). In Ghana more than 90% of all businesses in Ghana can be classified as SMEs. (KDI, 2008). This sector employs about 60% of the work force. The SMEs sector in Ghana have an important role to play in spurring economic growth, given that they represent a vast portion of the firm tissue in the economy. Given the impact that sound corporate governance practice have been found to have on companies, a strong case have been made for SMEs to adopt good corporate governance practices.

After a study of how the adoption of corporate governance structures affects the performance of SMEs (small to medium-sized enterprises) in Ghana, Abor and Biekpe concluded that corporate governance can greatly assist the SME sector by infusing better management practices, stronger internal auditing, greater opportunities for growth and new strategic outlook through non-executive directors. (Joshua Abor, Nicholas Biekpe, 2007).

One key problem that have bedeviled the SMEs globally have been access to credit. The credit crunch and its accompanying dwindling of confidence resulting from the global financial crisis has shrunk bank lending, resulting in limited or no access to working capital for the SMEs. This inability to directly access the capital markets, puts the SMEs at a competitive disadvantage relative to larger firms. It also cut them from growing their businesses. (www.ifc.org/wps). Ghana’s case is even more compounded by government tendency to borrow from the domestic capital market, thus crowding out the SMEs. This
limited access to credit, coupled with high interest rates as well as prohibitive collateral requirements have been some of the major constraints to the growth of many SME’s. (USAID’s DCA Ghana Impact Brief, 2009).

1.2 Problem Statement

A review of the literature and most of the empirical studies on both corporate governance and the SME sector brings two issues to the fore. Firstly the fact that corporate governance can greatly assist the SME sector by infusing better management practices and offering greater opportunities for growth. Secondly SMEs are greatly constraints by perennial lack of access to credit. Could the adoption of sound corporate governance principles help the Ghanaian SME overcome this problem of access to credit?

Most of the empirical studies in this area focused either on the impact of corporate governance on firm’s performance, or the influence of ownership structure on firm value (Claessens, 2002).

The monetary policy and financial sector reforms in Ghana have contributed significantly to increase banks’ lending to the private sector, the global credit crunch not-withstanding. However factors such as high interest rates, prohibitive collateral requirements coupled with and non-optimal corporate governance practice have limited SMEs access to credit in no small ways.

1. What is the level of Corporate Governance practice among SMEs in Ghana?
2. What impact does SMEs’ adherence to corporate governance practices have on their access to credit?
These are the questions this research seeks to investigate and find answers for.

1.3 Purpose of the Study

The basic motivation for this study is to examine the current level of corporate governance practice among Ghanaian SMEs and to ascertain the extent to which this impact their ability to access credit. This study has several implications both for theory and practice. From a theoretical stand point, this research seeks to explore the relationship between corporate governance practice and SMEs’ access to credit. The study hopes to contribute to the international discussion and the current literature on promoting corporate governance practice among SMEs. From a practical stand point also, the study aims at highlighting the real value that stakeholders in the SME sector place on corporate governance practice in Ghana and possibly provide a mirror to what the situation likely is for most developing countries. The issues are discussed both from the perspective of the SMEs and Financial intermediaries with the view of providing reference for policy interventions by state agencies and other organisation with missions to develop the SME sector.

1.4 Organisation of the Study

The Thesis is organised as follows:

The first chapter contains the background which introduces the topic and touches on some of the issues with regards to corporate governance and SMEs. The literature review that forms the second chapter looks at the various definitions of corporate governance and SMEs as well as the historical and regulatory frame work governing corporate
governance globally and in Ghana. Chapter three looks, the theoretical framework, discusses the various theories, models, and instrument of corporate governance and the interrelationship that exist among them. The method used in gathering the data forms the fourth chapter. Chapter five contains the data analysis, presentation and discussion of the findings. The conclusion and recommendations will form the chapter six of this study.
Chapter Two: Literature Review

2.0 Introduction

Corporate governance has evolved out of the need to protect those who provide external finance to the corporation from those who have control over the firm. This clash of interest between the managers of the firm and the owners is usually referred to as the agency problem. The attempt to mitigate the effect of this clash has been the driving force behind the evolution of corporate governance. In fact until the latter part of the 1900's the expression ‘good corporate governance’ was used to describe how well a business was directed and managed from the perspective of its managers. This was fine as long as there was no conflict between managers and the ultimate beneficiaries. However as share ownership became more distributed and more popular, the objectives of shareholders and managers did not necessarily coincide hence the need for corporate governance.

2.1 Definitions of Corporate Governance

The term “Corporate governance” does not easily lend itself to one universal definition. Different writers have defined it differently from different perspectives. Oman define it broadly as referring to the private and Public institutions, including laws, regulations and accepted business practices, which in market economy govern the relationship between corporate managers and entrepreneurs ("corporate insiders") on one hand, those who invest resources in corporations, on the other (Oman, 2001). The OECD (2004): also define corporate governance as "a set of relationships between a company’s board, its shareholders and other stakeholders.” According to the OECD, “...it also provides the
structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined".

Cadbury (1992): define corporate governance as "the whole system of controls, both financial and otherwise, by which a company is directed and controlled".

Other writers like Cochran and Warwick (1988) also define corporate governance as: "...an umbrella term that includes specific issues arising from interactions among senior management, shareholders, boards of directors, and other corporate stakeholders". While Shleifer and Vishny (1997) define corporate governance as "the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment".

It is clear from afore mentioned definitions that corporate governance is concerned with the processes, systems, practices, procedures, rules and regulations that govern institutions, the manner in which these rules and regulations are applied and followed, the relationships that these rules and regulations determine or create, the nature and the effects of those relationships.

Corporate governance is fundamental to well-run companies that have controls in place to ensure that individuals or groups connected with the company do not adversely influence the company and its activities and that assets or profits are not used for the benefit of a Select group to the disadvantage of the majority. (UNCTAD 2003). Good corporate governance however is influenced by a number of factors, primary among
which is the nature of the overall institutional and legal framework that has been established by governments to effect such good governance.

The World Development Report 2002, refers to corporate governance institutions as those organizations and rules that affect expectations about the exercise of control of resources in firms. National institutions that contribute to good corporate governance will be those that allow entrepreneurs to invest resources and create value that is shared among the investors in a company, the managers, and employees. Such created value, or returns, will also have some influence on national economic performance. More specifically, a system of good corporate governance and its supporting institutions shape who makes investment decisions in corporations, what types of investments they make, and how returns from investments are distributed. In Ghana mention can be made of institutions like the GIPC, the SEC, GBSSI and regulations such as the companies Code, etc.

2.1.1 Models of Corporate Governance

Differences in market structure, legal system, traditional regulations, history, cultural and societal values have resulted in the evolution of different corporate governance models over time. Not only could the systems vary from country to country and from sector to sector, they may also vary even for the same corporation over time. Every corporate governance system however affect the agility, efficiency and profitability of all
corporations whether private, publically owned or state owned. (Chamlou and Iskander, 2000). Three main models are discussed here, the UK model, the US model and the OECD principle.

➢ UK Model

The UK corporate governance has generally been developed by independent committees, which have produced a series of documents on corporate governance. This have had a very massive influence on the development of corporate governance in other countries, due to their adoption of these document. One key document which many consider a major influence of modern day good corporate governance practice is the Cadbury report.

• The Cadbury Report

Published in 1992. The recommendations of the Cadbury Report influenced the development of corporate governance not just in the United Kingdom, but in many other countries. The following recommendations were put across in the Cadbury report;

• Companies should establish key board committees covering audit (composed of non-executive directors, responsible to the board); remuneration (responsible to the board for recommending remuneration of directors; nomination (a formal and transparent procedure for the appointment of new directors to the board);
• There should be at least three independent non-executive directors.
• The board should include a balance of executives and non-executive directors, so that no individual can dominate the board's decision making
• There should be separation between the roles of chairman (responsible for running the board) and the chief executive officer (responsible for running the business).

Subsequent to the Cadbury Report, there have been other reports like the Greenbury Report (1995), the Hampel Report, the Higgs Report (2003) and the Smith Report all aimed at giving guidelines on what the optimum corporate governance practice should be.

➢ USA Model

• The Sarbanes-Oxley Act

Introduced in the US in 2002 as a fall out of the Enron scandal, this act introduced new oversight board and tighter regulations on certain accounting issues such as off-balance sheet finance. Under the Act companies will not be able to obtain a listing unless they have an, audit committee.

In spite of the differences among these corporate governance models there is a certain degree of convergence in actual operations and governance practices. Uniformity in standards and agreement on basic principles is rapidly spreading. The OECD has been one if the key organisation at the forefront on this.

➢ The OECD Principles

First published in 1999 and subsequently revised in 2004, the OECD in publishing its elements of corporate governance, took into account the views of many different countries on the subject of what constitutes good corporate governance.

The OECD states "the primary role for regulation is to shape a corporate governance
environment compatible with societal values that allows competition and market forces to work so that corporations can succeed in generating long-term economic gain. Specific governance structures or practices will not necessarily fit all companies at all times (OECD, 1999a).

The OECD identifies the following key elements of good corporate governance:

i. The rights and obligations of shareholders

ii. Equitable treatment of shareholders

iii. The role of stakeholders and corporate governance

iv. Transparency, disclosure of information and audit

v. The board of directors and Non-executive members of the board

vi. Executive management, compensation and performance

The main theme of the above principle lies in four basic principles. Firstly, the issue of business ethics and compliance, secondly the adequacy of the business decision making mechanism, thirdly adequate disclosure and transparency and fourthly financial control and administration (keeping and financial accounting). These OECD principles are so sound that even the non-members of OECD are implementing and adopting. Morck (2005) states that the soundness of these principles has been proved by its adoption all over the world.

Combining the three corporate governance models above clearly reveal some basic instruments of good corporate governance. These are inter alia; the Board of Directors (board composition, Size and the independence of board members), Board Chairman/CEO duality, Board Committees and skills and independence of CEO and top management. Thus whether or not an organisation can be said to be practicing good corporate governance is determined by the
extent to which they organise their activities using these instruments.

The relationships between various corporate governance theories, the principles of corporate governance and some of the above mentioned instruments of corporate governance are discussed more in the next chapter.

2.1.2 Ghana’s Corporate Governance Framework.

The major legislative references for corporate governance practice in Ghana are the Companies Code 1963 (Act 179), The Securities Industry Law 1993, and the Ghana Stock Exchange (GSE) rules. Of this three the one with the most relevance to SMEs in Ghana is the Companies Code 1963 (Act 179).

The Companies code though have not seen a major review since its passage was assessed by the World Bank as ‘fairly strong’. See World Bank Report on the Observance of Standards and Codes (ROSC, 2005). The code outlines specific rules with to different categories of stakeholders, adherence for which will ensure some adherence to corporate governance principles. These include but not limited to

- Rights and responsibilities of Shareholders and Stakeholder
- The Responsibility of the board
- The role of the board Chairman
- Directors responsibility
- Auditor-appointment procedure and role
- Disclosure and transparency
Equitable treatment of shareholders.

All companies registered under the Companies Code 1963 (Act 179), SMEs or not are by default bound by these rules contained therein. However without the ability to monitor and ensure compliance even these minimal corporate governance provision will not be adhered to.

2.2 Definition of Small and Medium Enterprises (SMEs)

Just like Corporate Governance, the term SME does not lend itself to one universally acceptable formal definition. Ward (2005) says the definition depends on who is defining it and where it is being defined. Firms differ in their levels of capitalizations, sales and employment. Hence, definitions that employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to different results. (Storey, 1994). In a study carried by the ILO, more than 50 definitions were identifies in 75 different countries, with considerable ambiguity in the terminology used. The enormous variety of criteria applied includes size of workforce or capital, form of management or ownership, production techniques, volume of sales, client numbers, levels of energy consumption etc. (Potobsky, 1992; Quartey & Kayanula, 2000).

UNIDO defines SMEs in developing countries based on the number of employees in an enterprise. A small enterprise has between 5 and 19(example hair dressing saloons, barbering shops etc), and a medium enterprise has 20 to 99 workers and these include manufacturing firm
and exporting companies. In Ghana also the size of the enterprises employment is the most important criterion used. Boon (1989).

National Board of Small Scale Industries (NBSSI) defines SMEs as enterprises that employ no more than 29 workers, with investment in plant and machinery (excluding land and buildings) not exceeding the equivalent of $100,000.

The Venture Capital Trust Fund (VCTF) Act 2004 (Act 680 section 28) however defines SMES as “an industry, project, undertaking or economic activity which employs not more than 100 persons and whose total asset base, excluding land and building, does not exceed the cedi equivalent of US$1 million in value”. This definition automatically places a greater percentage of the Ghanaian firm tissue under SMEs. A study conducted by the Korean Development Institute (KDI) also concluded that more than 90% of all businesses in Ghana can be classified as SMEs. (KDI, 2008).

However, SMEs face a number of constraints, which includes: financial, technical, raw materials, managerial, legal, regulation and competitive policies (see Sowa et al, 1992; Levy, 1993; Aryeetey, 1994; Kayanula and Quartey, 1999). The problems related to finance dominate all other constraint to SMEs (Cuevas et al, 1993).

2.3 Corporate Governance and the SMEs

Corporate governance as a concept has been associated with larger companies. This is obviously so because of the existence of the agency problem in such companies. The agency problem arises mainly as a result of the relationships between shareholders (owners) and
managers. SMEs however in many cases are made up of only the owner who is the sole proprietor and manager (Hart, 1995). The separation of ownership and management is not as pronounced in SMEs as it is with larger firms. This makes it some people argue that corporate governance should not apply to SMEs. Another argument is that because SMEs have few employees - who are mostly relatives of the owner, and for that matter no separation between ownership and control there is no need for corporate governance in their operations. Also, the question of accountability by SMEs to the public is non-existent since they do not depend on public funds. Most especially the sole proprietorship businesses - do not necessarily need to comply with any disclosure requirement, and hence is in little or no need of corporate governance principles. (Abor and Adjasi, 2007).

Notwithstanding all the above arguments, a strong case have still been made for the adoption of corporate governance principle by SMEs. In the words of Bill Witherell, Director of Financial and Enterprise Affairs, OECD “good corporate governance underpins market confidence, integrity and efficiency and hence promotes economic growth and financial stability”. A number of writers have also linked firm-level corporate governance practices to firm value (e.g., Durnev and Kim, 2005; Black, Jang and Kim, 2006a). Overall these studies support the importance of firm level corporate governance, especially in countries with weak legal protections for investors (e.g., Klapper and Love, 2004). External board members bring into the firm expertise and knowledge on financing options available and strategies to source such finances, thus dealing with the credit constraint problem of SMEs. They are able to able to challenge strategies by management (Pettigrew and
McNulty, 1995); and are thus able to inject better management practices to attract resources. Corporate governance has implications for economic development especially in helping to increase the flow of financial capital to firms in developing countries. When fully implemented, good corporate governance would ensure that SMEs are well-run in order to earn the confidence of investors and lenders. The process ensures safeguards against mismanagement. (CIPE, 2002).

2.4 Importance of Financial Intermediaries in SME Development

Llewellyn (1997) argues that financial system play a crucial role in development through the reduction of information and transactions cost and its efficiency in reducing those cost influences savings rates, investment decisions, technological innovation and long run growth rates. Sowah N.K., (2003) states that “Finance is the oil for growth. It is indeed the life-blood of the economic system. The financial system is the vessel that carries this life-blood through the economic system. Faulty vessels prevent the life-blood from reaching essential parts of the economic system”.

Patrick (1966) also stated in his work that financial institutions play a major role in promoting economic growth by ensuring the availability of credit to potential investors. Likewise, King and Levine (1993) agree with the above that countries with better financial systems have superior economic growth. Goldsmith (1969) argued that in the early stages of economic development suppressed interest rates, credit policies and institution building provided the financial impetus necessary for economic development. In other words, ensuring the flow of credit to SME sector provides a sound ground for economic growth.
It is in the interest of financial institutions to ensure that the economy is growing efficiently by playing an intermediary role between suppliers and lenders of funds in any economy by gathering surplus funds in the economy and then lending these funds to those who need them. According to Mishkin (2001), banks are the most important source of external funds especially for loans. This suggests that bank play an important role in financing business activities especially in developing countries.

2.4.1 SMEs and Access to Credit

Access to bank credit by SMEs has been an issue repeatedly raised by numerous studies as a major constraint to industrial growth. Cuevas et al. (1993). A common explanation for the alleged lack of access to bank loan by SMEs is their inability to pledge acceptable collateral and high transaction costs. (Beyene, 2002). UNCTAD (1995), says that the persistent challenges on SMEs financing, and the limiting terms and conditions on loans approved, are a universal and important problem among SMEs in developing countries. They also list reasons like SMEs’ difficulties in proving creditworthiness, lack of collateral, high interest rates, small cash flows, and inadequate credit history. This also supported by works of Galindo and Schiantarelli (2003).

Dr. Ofei (JEL: G21, I30, N27) agrees to this assertion. According to him SMEs inability to access loans are due to pre-screening techniques employed by banks. These include; feasibility studies, collateral, track record and minimum deposits. But he also makes the point that
informal factors like personal relations, family connections and knowledge and business relations all influence whether or not an SME client get access to loans. Schiffer and Weder (1991) found that in most developing countries, lending to small businesses and entrepreneurs remain limited because financial intermediaries are apprehensive about supplying credit to businesses due to their high risk, small portfolios, and high transaction cost. However, a similar study by Aryeetey and Seini in Ghana came to a different conclusion. According to them there was no statistically significant difference in the cost of administering loans to smaller and larger enterprises”. (Aryeetey and Seini 1992). What this means is that at least in the case of SMEs in Ghana, transaction cost is not a put off for the banks. The major put offs are higher risk of default due to lack of collateral, low profitability, low cash flow, all of which may be symptoms of non-optimal corporate governance practice.

2.4.2 Debt Financing for SMEs

The following are the various sources of debt financing available to Ghanaian SMEs. For the purpose of this research, emphasis is placed on commercial banks, savings and loans, microfinance; and friends and relatives.

2.4.2.1 Commercial Banks, Savings & Loans and Microfinance Institutions

Ghana’s banking sector have been dominated for a very long time by commercial banks. However, the reforms of the financial sector in the last two decades have seen the emergence of more savings & loans and microfinance institutions. Hisrich and Peters (1995) make the point that commercial banks constitute the most widely used source of debt financing for
small companies. Longenecker et al. (1994) claim that commercial banks loans to small companies are mostly short-term loans, though some do offer long-term loans to small and medium size companies. According to Kuriloff et al. (1993), commercial banks usually provide loans for working capital or for the purchase of fixed assets. They demand evidence of a company’s ability to pay the interest and principal as scheduled. This evidence is usually in the form of cash flows statements. They also demand some form of security. These arguments hold true for savings & loans and microfinance as well.

While commercial banks are the major source of loanable funds in the market, they focus on providing only short-term financing for their clients. As a consequence, many companies inappropriately use short–term funds to finance long-term project (Morse et al, 1996). The short–term nature of the loans from the banks does not support the expansion programs of SMEs.

2.4.2.2 Friends and Relatives
Loans and contributions from friends and relatives are common source of funds, especially for new business since the financial institutions are reluctant to providing funding for start-up business because of the risk involve. This source of funds, however, bears a potentially dangerous price. Many friends’ relatives find it very difficult to stay as passive creditors or investors. They usually try to interfere with policy and operational issues (Kuriloff et al.1993; Longenecker et al. 1994). As a remedy to this problem, Kuriloff et al. (1993) recommended the treatment of such loans like bank loans by putting in writing all the terms
including interest rates and payment schedule.

It is clear from a review of the extant literature that SMEs can greatly enhance their corporate governance environment by effectively utilising the various corporate governance instruments that exist. This by extension will impact their corporate governance perception and enhance their chances of obtaining credit. The various instruments of corporate governance are discussed in the next chapter.
Chapter Three: Theoretical Framework

3.1 Introduction

Cochran and Wartick (1988) refer to corporate governance as an umbrella term that covers many aspects related to concepts, theories and practices of boards of directors and their executive and non-executive directors. This chapter discusses the different theories, models and concepts and practices which underpin corporate governance. The agency theory, Stewardship theory and the stakeholder theories are all used to discuss the major aspects of corporate governance among SMEs which discussion eventually leads to the hypothesis for this study.

3.2 Theories of Corporate Governance

Though the extant literature espouses a number of theories on corporate governance, only the three major ones, namely the Agency theory, the Stewardship theory and the Stakeholder theory are discussed here.

➢ Agency Theory

Proponents of the agency theory argue that corporate governance has evolved out of the need to protect those who provide external finance to the corporation from those who have control over the firm. They argue that the interest of shareholders and the management of the business did not always coincide. This clash of interest between the managers of the firm and the owners is usually referred to as the agency problem. See Jensen and Meckling (1976). The agency theory looks at corporate governance from the
perspective of the shareholder. From this perspective, corporations are defined as entities that are subordinate to the interest of the shareholder. See (Gedajlovic, 1993). Since interest of managers (who are seen as fiduciaries) may not always align with that of shareholders, corporate boards are seen as internal devices to align the two interests.

► **Stewardship Theory**

The stewardship theory however looks at corporate governance from the perspective of the managers. Proponents of this theory argue that a manager’s main aspiration is to do a good job, to be a good steward of corporate asset. Management’s aim is to maximise a firm’s performance since that speaks of the success and achievement of management. (See Muth and Donaldson, 1998).

► **Stakeholder Theory**

The stakeholder perspective of corporate governance departs from the assumptions underlying a shareholder perspective of corporate governance. This perspective sees corporations as superordinate entities in which a variety of parties have vested legitimate interests. As such, this perspective also recognizes interests of stakeholders other than shareholders that need to be protected. (Maassen, 2000). Proponents of this theory argue that the firm should pay attention to other stakeholder groups like customers, suppliers, employees and the local community. According to them these groups also have a stake in the business of the firm and therefore should have board representation for effective corporate governance. (See Gibson, 2000; Freeman, 1984)
A critical analysis of all the above theories would show that corporate governance is all about the protection of interest of all stakeholders of the corporation namely; the Shareholder, Managers, and other stakeholders (like Employees, Regulators, Suppliers, Customers and the larger Society). A good corporate governance system would employ relevant instruments, principles and or systems to ensure that all stakeholders are made happy while ensuring the company’s continues existence as a going concern.

3.3 Corporate Governance Principles

According to the World Bank, “Corporate governance refers to that blend of law, regulation and appropriate voluntary private sector practices which enable the corporation to attract financial and human capital, perform efficiently, and thereby perpetuate itself by generating long-term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole. The principal characteristics of effective corporate governance are: transparency (disclosure of relevant financial and operational information and internal processes of management oversight and control); protection and enforceability of the rights and prerogatives of all shareholders; and, directors capable of independently approving the corporation's strategy and major business plans and decisions, and of independently hiring management, monitoring management's performance and integrity, and replacing management when necessary” (www.worldbank.org, Jan 1999). This description to a very large extent gives a bird’s eye view of what a good corporate governance system should look like.
Good corporate governance, as is now perceive, was greatly influence by the 1992 report of the Cadbury committee on the financial aspect of corporate governance. The report's proposals and its code of best practice emphasized the importance of independent non-executive director advocacy for audit committee: The separation of the chief executive position from the chairman of the board and so on. As already indicated in chapter two of this study, other relevant report have come subsequently which together represent the UK model of corporate governance.

As discussed in chapter two, the Organization for Economic Cooperation and Development (OECD) has done a very good job at distilling from different national practices a set of principles of corporate governance, dealing largely with internal mechanisms for directing the relationships of managers, directors, shareholders and other stakeholders.

All the principles espoused by the three different institutions above (the World Bank, the Cadbury Committee and the OECD) and in fact the extant literature on corporate governance reveals the fact that to be successful, a company requires;

1. Well informed shareholders (who are able to appoint);

2. an independent Board of Directors (clothed with the power to independently appoint;

3. a competent Management (full of integrity, to implement the company’s strategies, regulations, etc in a transparent manner so as to ensure the company’s
existence in perpetuity.

John Pound calls the above (i.e. Shareholders, Board and Management) the critical constituencies. In his classical article ‘The Promise of the Governed Corporation’ Pound advocate for shareholders and directors to be involved in the decision making process. In his governed corporation model of corporate governance in which Shareholder, Board and management work together, he insist that; first members of the board must be experts, board meeting and procedures should focus on debating new decisions and strategies not just reviewing past performance; thirdly directors need better access to information- on products, customers etc; fourthly directors should be required to devote a substantial portion of their professional time to the corporation and finally board members must be compensated for work done. They should feel that their own personal fortunes hinge on their ability to create value through their service. (See John Pound, HBR, 2000).

In other words, any corporate governance framework which effectively harmonises the activities of these three ‘critical’ constituencies will succeed regardless of whether the company is a large scale or an SME. This can be done through instrument such as the Board of Directors (board composition, Size and the independence of board members), Board Chairman/CEO duality, Board Committees and skills and independence of CEO and top management Thus though all the afore mention corporate governance guidelines (Cadbury, OECD, Sarbanes-Oxley etc) were developed with larger corporations in mind, these guidelines can be applicable to SMEs on a lower scale. This it can be happen by mimicry and by institutional pressures. (Corbetta and Salvato, 2004).
This research relies on factors like Board Composition, Board Size, CEO Duality, Skill level of Management to analyse the extent of corporate governance practice among SMEs. These are discussed in turn.

### 3.3.1 Board Composition

Boards of directors are essential elements to most definitions of corporate governance. They bring out the formal link between owners and their managers responsible for the day-to-day operations of the SME. Most researchers agree that corporate boards are important to the accountability of corporations and the way corporations comply with modern ethical and economic standards. (Massen, 2000). According to Cadbury,(1993:9) it “… is the ability of boards of directors to combine leadership with control and effectiveness with accountability that will primarily determine how well companies meet society's expectations of them. Williams and Shapiro (1979) see strong and effective boards as valuable corporate assets. According to these authors, “enhancing the perception of corporate accountability and thus reducing the pressure for a government role in corporate decision making is a vital goal”. They also make a point that both management and directors share a fundamental, goal – to develop a board which can bring the best, most informed and most objective advice available . . .” (Williams and Shapiro, 1979:14-15)

Thus the significance of the board for SMEs cannot be over emphasised. However most SMEs, are closely held and owner-managed and the owners usually do have direct and more insights into internal processes of the firm (See Cowling, 2003). Consequently, for most SMEs boards exist on paper only, the boards control function is non-existent. On the
other hand, there are also instances of SMEs having active boards with outside members, where the board is used as an instrument of strategy development (Fiengener, 2005, McNulty, 1995 and Ward, 1991). The outside members usually view the tasks of the board as being clearly different and complementary to that of management, whereas insiders may view the board work as an extension of their managerial duties (Klapper and Love, 2004). The outside board members are not tied to the day-to-day activities of the SME and as a result they are likely to think more freely regarding the strategic alternatives open to the SME (Forbes and Milliken, 1999).

The debate on what should be the preferred board composition appear to tilt more favourably towards the board with more outside directors than inside. John and Senbet (1998) argue that boards of directors are seen to be more independent as the proportion of their non-executive directors increases. Baysinger and Butler (1985), Rosenstein and Wyatt, (1990) and Brickley et al (1994) all showed that the market reward firms for appointing non-executive directors. In other words an SME with more outside directors will be perceived more favourably by the market and financial institutions than SMEs with more inside directors.

### 3.3.2 Board Size

As already indicated, SMEs by their nature tend to have very smaller board sizes. Jensen (1993), and Lipton and Lorsch (1992) argue that large boards are less effective and are easier for the CEO to control. When a board gets too big, it becomes difficult to co-ordinate and often creates problems. Smaller boards also reduce the possibility of free
riding by, and increase the accountability of individual directors. These argument notwithstanding there is still a strong case for SMEs to increase their board membership beyond the usual two to 4. Transitioning from owner-manager to a company with a wider board is one of the most important transition that an SME can undergo. This team approach permits clearer development and definition of the choices facing the business. It also permits a stronger development of a more open and less oppressive internal human relations structure (see Drucker, 1992; Sparrow, 1993).

Some researchers found a strong link between widened board improved performance of SMEs. (See (Wynarczyk et al., 1993; Goodstein et al., 1994). The result is even more impressive where there are more non-executive directors (Cowen and Osborne, 1993). Thus SMEs with a larger board is more likely to have a better corporate governance environment than the ones with smaller ones.

3.3.4 CEO Duality

The literature reveals two types of board structures/system. the system where the CEO also acts as chairman of the board and the system where the positions of CEO and chairman are occupied by two individuals. It has been noted that the system where the CEO also acts as board chairman leads to leadership facing conflict of interest and enhances the agency problems (Brickley et al., 1997). The is preference therefore for the system where the CEO's role IS separated from that of the board chairman. Yermack (1996) argues that firms are more valuable when the CEO and board
chair positions are separate. Sanda et al. (2003) found a positive relationship between firm performance and the separation of the functions of the CEO and Chairman. There are some empirical studies however which came to a different conclusion. Daily and Dalton (1992) found no relationship between CEO duality and performance in entrepreneurial firms. Brickley et al. (1997) showed that CEO duality is not associated with inferior performance. The above conclusions notwithstanding Cadbury (1992) makes a strong case for the separation of the CEO and the Chairman of the Board. Thus SMEs which have their CEO doubling as Chairman of the board would be perceived as weaker in terms of corporate governance practice than the ones whose board Chairs are separate from the CEO.

3.3.5 Board Committees
One of the major request of the Cadbury Committee was the call for companies to establish key board committees covering audit (composed of non-executive directors, responsible to the board); remuneration (responsible to the board for recommending remuneration of directors); nomination (a formal and transparent procedure for the appointment of new directors to the board and finance committee. In the context of SMEs however the argument of cost have been used against creating board committee. Yet the issue is more about the size, independence and expertise if the board members than cost. A board whose size and composition is devoid of experts cannot have a committee of experts.
3.4 Hypothesis

According to Kabiru and Azende corporate governance has been seen to be lacking in most of the SMEs they studied (Kabiru and Azende, 2000). As a result of this, according to them majority of banks do not pay more attention to the development of SMEs by means of financing because of SMEs poor corporate governance practices. Aryeetey et al. (1994) however suggest that though banks may be constraint, they should do active banking by mobilizing resources and distributing them to needy SMEs. Sowah (2003) further suggest that bank should be urged to take “reasonable risk” in vetting loan applications from small and medium enterprises, especially for business ventures in new areas and technology. This is because the lack of adequate funding means that SMEs will have low incomes, low profits and low capital formation. The Shortage of finance and the high interest rate negatively affect financial performance of SMEs. A number of researches have also drawn a strong positive correlations between bank loan and Profits of SMEs. (See McMahon, (1993).According to Keasey and Watson (1991), the use of banks' financing by SMEs is related to higher business performance. Thus banks would have to overlook some corporate governance non-compliance issues and grant credit to SMEs regardless, if that sector is to see growth. This underpins the hypothesis below.

Hypothesis

H₀: Banks do not consider Corporate Governance practice as criteria for granting credit to SMEs
H1: Banks consider Corporate Governance practice as criteria for granting credit to SMEs
Chapter Four: Methodology

4.1 Introduction

Methodology simply means the methods used in collecting data with regards to stated problems and questions as well as the objectives of the study (Naichiamas and Frankfort-Naichiamas, 1996). Therefore, methodology explains the method that was used in carrying out this research. The chapter focused on the various methods used by the researcher to collect data and also to analyze the data collected. The chapter looks at the population of the study, the sampling procedure and sample size determination and data analysis.

4.2 Research Design

Descriptive survey design was employed for this study. According to Neuman (2000), descriptive research design is a scientific method which involves observing and describing the behaviour of a subject without influencing it in any way. Descriptive design is employed to collect information concerning the current state of the phenomena to describe "what exists" with respect to conditions in a situation as well as variables (Key, 1997). Hence, the descriptive survey study was used to find out and describe the impact of corporate governance practice on SMEs access to credit. This was done through the use of procedures that described, clarified and interpreted existing variables that formed a phenomenon.

However, there was difficulty in ensuring that the questions answered in this descriptive survey were clear and not misleading. This, according to Osuala (1993) is so because survey reports depend on the exact wording of questions. Moreover, Neuman (2000) also indicates that descriptive survey may give unreliable results because questions asked may delve into private matters of people who may not be willing to talk about such matters.
This study employed the descriptive design because it had the advantage of producing different responses from a wide range of respondents on issues relating to SME access to finance.

**4.3 Research Approach**

Recent years have seen a flow in the popularity of mixed methods research (Cresswell and Plano Clark 2007; Tashakkori and Teddie 2003) which combine both qualitative and quantitative techniques and are intended to achieve a greater comprehensiveness than could be obtained by using either one on its own (O’Cathain et al. 2007). The study adopted both qualitative and quantitative approach (Creswell, 2003). The qualitative approach helped the researcher to collect detailed information from the respondents' opinion on SME financing. The qualitative approach is aimed at gathering an in-depth understanding of respondents’ opinion on the impact of corporate governance practice on SMEs access to credit. This helped the research in investigating on decisions making with regard to the corporate governance practice, as well as its impact on SMEs access to finance. This method will be considered where relevant data collection methods on these areas specified above, which usually involve close contact between the researchers is required and the research participants, which are interactive and developmental and allow for emergent issues to be explored. Also, this method allows for analysis which is open to developing concepts and ideas and which may yield comprehensive description and classification, identify patterns of association or develop typologies and explanations (Snape and Spencer 2003, 5). Hamersley (2000), Shaw (2003a) and Green and Thorogood (2004) review some of the main advantages of qualitative research. The first is the argument that qualitative methods ‘reach the parts that other ‘quantitative’ methods can’t reach’ (Green and Thorogood 2004) particularly in research looking at links between processes and outcomes (Shaw 2003a).
Qualitative researchers have established that qualitative methods, particularly within longitudinal studies linking a series of informal semi-structured interviews and systematic observation, can reflect inconsistencies and contradictions within and between individuals' accounts as an important focus for analysis, and this has been one of the advantages of discourse analysis (Burman & Parker, 1993). Qualitative methods can also allow researchers an amount of flexibility in the conduct of a particular study; enable the examination of delicate or difficult topics if a relationship of trust develops between researcher and researched; and enable researchers to make connections between different aspects of people’s lives, such as the domestic sphere, employment and leisure time (Griffin, 1996).

The research will measure data on the impact of corporate governance on SMEs access to credit, quantitatively to provide fundamental connection between empirical observation and mathematical expression of quantitative relationships, (Saunders et al. 2007). The objective of quantitative research is to develop and use mathematical models, theories and/or hypotheses pertaining to natural phenomena. Again, the quantitative model will enable the researcher to measure or compare association by using inferential statistics such as percentages, frequency tables, and charts. This method will also provide precise, quantitative, numerical data. The data analysis will have relatively less time (using statistical software). Another advantage is that the research results are relatively independent of the researcher (e.g., statistical significance). Moreover, it may have higher credibility with many stakeholders in the SME sector (e.g., Regulators, International organisations, Banks, Equity firms etc.). The quantitative method is also useful for studying large numbers of people.

However, the disadvantages of this method includes the fact that theories that are used might not reflect local constituencies’ understandings; knowledge produced might be too abstract and general for direct application to specific (Saunders et al. 2007). Moreover, the
quantitative approach enabled the researcher to measure or compare association by using inferential statistics such as frequency tables, percentages, and charts.

4.4 Data Collection Techniques

Sekaran (2003) presents as with different data collection techniques. The chosen alternative depends on which method best answers the question of the investigation. The study is descriptive in nature and therefore the information presented is based on primary and secondary data. According to Shields and Rangarjan (2013), descriptive research is used to describe characteristics of a population or phenomenon being studied. It does not answer the question how, when or how the characteristics occurred but address the “what” question. This study is descriptive because it seeks to find what the impact of corporate governance practice have been on the SMEs’ access to credit.

The data for this study were gathered through the use of primary and secondary data sources.

➢ **Primary Data**

The primary data for this study was gathered through the use of questionnaire. Two set of questionnaires were used to gather data. One set was distributed to the three critical constituencies within the SMEs’ set up, i.e. members of management, shareholders and board members. The other set was distributed to sampled banks and non-bank financial institutions.

The SMEs questionnaire was divided into three sections. Section A, concentrated on the bio data of the respondent firms such as:

- Age of the firm
- Position of respondent
- Industry

These helped us in identifying the type of SME we were dealing with, whether or not they
were Micro, Small or medium enterprise as per the definition of the Venture Capital Trust Fund (VCTF) Act 2004 (Act 680 section 28)

Section B of the questionnaire consisted of various questions geared towards assessing the corporate governance practice among SMEs. These questions inter alia looked at issues like board size, CEO appointment, CEO/Board chairman duality, expertise if board members and frequency of Board meeting.

Section C of the questionnaire concentrated on the SMEs constraints faced by SMEs when accessing credit, their most reliable sources of funds, their success rate etc.

The second set of questionnaire for bank and non-bank financial institution was aimed at answering the research question from the lenders perspective. The simple, straightforward and close ended question looked sought to gather from the lenders, information about the type of SMEs client portfolio, Success rate of SMEs loan application, application processing speed, main consideration of granting credit, etc.

The secondary data were obtained from reviewing journals and literature relevant to the subject matter of this research. Relevant Legislations, and publications by relevant institutions.

4.5 Target Population

SMEs are scattered across the country with higher concentration in Greater Accra, Ashanti, Western, and Central Region. Greater Accra was selected for the following reasons

Firstly, these two regions are the most populous region and has the highest concentration of SMEs as well as banks and non-bank financial institution. Selecting these two regions thus gave the researcher the opportunity to contact SME operators who have who have had some experience or the other with the banks or other non-bank financial institutions on one hand, and the lending institutions who have courted SMEs on the other.

4.6 Sample Size

The study relied heavily on the Venture Capital Trust Fund (VCTF) Act 2004 (Act 680) definition of an SME. Thus companies selected had number of employees raging from as little as 10 to 100.
A sample size of the 120 SMEs were targeted, and hence questionnaires were distributed to these SMEs out of which we received responses from 100 respondents. This represented about 83% of the response rate which I consider impressive for a study of this nature.

4.7 Data Analysis

The researcher used Statistical Packages for Social Sciences (SPSS) for analyzing the data collected from the field. Bar chart and pie chart were used to analyze and present the research findings gathered by the researcher.

The frequencies of the bar and pie charts being one of the most frequently used technique for analysis, specified the quantitative relationship between two variables, which help to make quantitative judgments about the impact of corporate governance practice on SMEs access to credit. The pie charts and the bar charts also provided benchmarks against which performances were measured. This was because the pie charts and the bar charts figures provided meaningful arguments when related to other relevant information. Moreover, chi square test as well as the Crammer’s V test was used to establish the association or level of impact between variables, with regard to corporate governance practice and SMEs access to credit.

4.8 Pre-testing of instrument

The survey questionnaire will be pre-tested for its reliability
Validity

This involves how meaningful is an inference made by the researcher considering the data collected. Hence, questions relating to the impact of corporate governance practice on SMEs access to credit will focus on the information gathered during reviews of literatures. The questions are asked in basic format, and in a language that will be clear to the respondents, structured and defined with detailed instructions.

Reliability

Reliability is how dependable, consistent and replicable over time, over instrument and over a group of respondents (Cohen and Manion, 2007). Thus semi closed and closed ended question are asked to enable respondents contribute to the research. It is also concern with precision and accuracy of variable of interest. SME questionnaire will be are administered to either Shareholders or Top management, thus increasing the reliability of data provided.
Chapter Five: Data Presentation and Analysis

5.0 Introduction

This chapter discusses and analyses data gathered from the field. The analyses were done based on the responses from respondents and the outputs are presented in tables and charts.

5.1 Data Presentation

5.1.1 Demographic Data

This section explores the demographic traits of the respondents in the study. Demographic characteristics such as age of SMEs, position of the respondents and type of financial institution were captured. The responses are shown in Table 5.1

Table 5.1: Demographic Characteristics of Respondents

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>N</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of SMEs</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 – 5</td>
<td></td>
<td>95</td>
<td>95.0</td>
</tr>
<tr>
<td>Above 5</td>
<td></td>
<td>5</td>
<td>5.0</td>
</tr>
<tr>
<td>Position of Respondents</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td>70</td>
<td>70.0</td>
</tr>
<tr>
<td>Board Member</td>
<td></td>
<td>20</td>
<td>20.0</td>
</tr>
<tr>
<td>Shareholder</td>
<td></td>
<td>10</td>
<td>10.0</td>
</tr>
<tr>
<td>Type of Organisation</td>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Bank</td>
<td></td>
<td>15</td>
<td>50.0</td>
</tr>
<tr>
<td>Savings and Loans</td>
<td></td>
<td>6</td>
<td>20.0</td>
</tr>
<tr>
<td>Investment Bank</td>
<td></td>
<td>6</td>
<td>20.0</td>
</tr>
<tr>
<td>Microfinance</td>
<td></td>
<td>3</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Table 5.1 shows the demographic characteristics of the respondents. 95% out of the 100 SME respondents have been in operation for more than 5 years whiles the other 5% were under 5 years. This results shows that majority of SMEs studied have some semblance of business stability.

Out of the 100 respondents, 70% of them were management, 20% of them were board members and 10% of them were shareholders. This shows that more of the respondents were managers of the day-to-day operations of the business.

50% out of the 30 respondents from the financial institutions were commercial banks, 20% of them were from savings and loans, 20% of them were also from Investment banks and 10% of them were from microfinance, showing clearly that most of the respondent relied more on commercial banks for funding.

5.1.2 Composition of Board, Size of Board, Duality of CEOs and Stakeholder awareness.

In order to examine extent of corporate governance awareness and practice among SMEs, the respondents were asked a number of questions pertaining to corporate governance principles. Respondents were asked whether they have heard of corporate governance or not, their knowledge on corporate government issues, the composition of board of directors, the size of the board, how often the board meet in a year, how many shareholders are part of the board, whether the board appoints the CEO and whether the chairperson of the board is separated from CEO among other questions. Their responses are shown in Tables 5.2 – 5.3.
<table>
<thead>
<tr>
<th>Characteristics</th>
<th>N</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Have you Heard of Corporate Governance</strong></td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>90</td>
<td>90.0</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>10</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td><strong>Level of Knowledge on Corporate Governance Issues</strong></td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very well informed</td>
<td>4</td>
<td>40.0</td>
<td></td>
</tr>
<tr>
<td>Not so much informed</td>
<td>50</td>
<td>50.0</td>
<td></td>
</tr>
<tr>
<td>Not informed at all</td>
<td>10</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td><strong>Composition of Board of Directors</strong></td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External directors</td>
<td>0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Internal Directors</td>
<td>85</td>
<td>85.0</td>
<td></td>
</tr>
<tr>
<td>Internal and External Directors</td>
<td>15</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td><strong>Size of Board</strong></td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-4</td>
<td>85</td>
<td>85.0</td>
<td></td>
</tr>
<tr>
<td>5-7</td>
<td>15</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td>8-11</td>
<td>0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td><strong>How often the Board meets in a year</strong></td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarterly</td>
<td>20</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>Semi-Annually</td>
<td>50</td>
<td>50.0</td>
<td></td>
</tr>
<tr>
<td>Annually</td>
<td>30</td>
<td>30.0</td>
<td></td>
</tr>
<tr>
<td><strong>How many Shareholders are parts of</strong></td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-2</td>
<td>60</td>
<td>60.0</td>
<td></td>
</tr>
<tr>
<td>3-4</td>
<td>30</td>
<td>30.0</td>
<td></td>
</tr>
<tr>
<td>5-7</td>
<td>10</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td><strong>Number of Members of the Board part</strong></td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-4</td>
<td>40</td>
<td>40.0</td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>60</td>
<td>60.0</td>
<td></td>
</tr>
<tr>
<td><strong>Does the Board appoints CEO</strong></td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>50</td>
<td>50.0</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>50</td>
<td>50.0</td>
<td></td>
</tr>
</tbody>
</table>
Table 5.2 shows 90% of the respondents said they have heard of corporate governance whereas the remaining 10% of the respondents said they have not. It is clear that almost all respondents have heard of corporate government. 40% of them said they were very well informed on corporate governance issues. 50% of them said they were not so much informed about corporate governance issues and 10% of them said they were not informed about corporate governance issues at all. Averagely, it is clear that majority of the respondents have knowledge on corporate governance issues.

85% of the SME admitted their board was composed of only internal directors, whilst 15% of them said they have external directors as part of the board. There was no case of an all external director board. The result also shows 85% of the respondents had a board size of 2-4, 15% of them said the size of their board is 5-7 and none had a board size of 8-11. It is correlation between the board size and the presence of external directors is also clear. Also
60% of the respondents had majority if the board members being shareholders, thus showing evidence of strong owner controlled boards. It also explains the low number of external directors. The table also show that 50% out of the 100 respondents said all board members are part of management whereas 50% of the respondents said half of their board members are part of management. This again shows a strong board controlled management. This same trend is seen in the question of CEO duality. 70% of the respondents said the chairperson of the board is not separated from the CEO whereas 30% of the respondents said the chairperson of the board is separated from the CEO.

On the frequency of board meetings only 20% of the respondents said their board meets quarterly whilst 30% of the respondents also said they meet annually and 50% of them said they meet semi-annually.

60% of the respondents said their company has no board committees whereas 20% of the respondents said their company has board committees. 20% of the respondents however, do not have an idea whether the company has board committees and 75% out of the 20 respondents said the committees of the board are formally appointed, 15% of the respondents said the committees are not formally appointed and 10% of the respondents said they have no idea whether the committees of the board are formally appointed or not.

Table 5.3: Subcommittees in order of relevance

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit committee</td>
<td>67(6.7%)</td>
<td>33(33%)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Compensation and nomination committee</td>
<td>26(26%)</td>
<td>34(34%)</td>
<td>35(35%)</td>
<td>5(5%)</td>
</tr>
<tr>
<td>Committee</td>
<td>Most Relevant (%)</td>
<td>Relevant (%)</td>
<td>Somewhat Relevant (%)</td>
<td>Others</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-------------------</td>
<td>--------------</td>
<td>-----------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Finance committee</td>
<td>74(7 4%)</td>
<td>10(%)</td>
<td>16(%)</td>
<td>-</td>
</tr>
<tr>
<td>Legal and regulatory committee</td>
<td>62(6 2%)</td>
<td>30(%)</td>
<td>8(8 %)</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Fieldwork, January 2015. (1=Most relevant, 2= relevant, 3= somewhat relevant 4=least relevant)

Table 5.3 shows the relevance of the subcommittees. 74% of the respondents were of the opinion that the finance committee is the most relevant subcommittee, 10% of the respondents said the finance committee is relevant and 16% of them said the finance committee is somewhat relevant. 67% of the respondents said the audit committee is the most relevant subcommittee whereas 33% of the respondents said the audit committee is relevant. 62% of the respondents said legal and regulatory committee is the most relevant subcommittee, 30% of the respondents said the legal and regulatory committee is relevant whereas 8% of the respondents said legal and regulatory committee is somewhat relevant. 35% of the respondents said that compensation and nomination committee is somewhat relevant, 34% of the respondents said the compensation and nomination committee is relevant, 26% of the respondents said compensation and nomination committee is the most relevant subcommittee whereas 5% of the respondents said compensation and nomination committee is the least relevant subcommittees in the company.

5.1.3 Company’s access to credit
In order to examine the company’s ability to source for funds, the 100 respondents selected from various SMEs were asked a number of questions pertaining to the source of funds for the business. Respondents were asked if they have sourced for financing from any of the Ghanaian institutions over the last 3 years, those who have sourced for financing were further asked to indicate their source of financing. Again the respondents were ask to
indicate type of funds they attempted raising over the last three years and respondents were asked to rank in order of success, the most reliable source of fund, Their responses are shown in Tables 5.4-5.5.

Table 5.4: Company’s Ability to Source Financing

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>N</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Have you Sourced for Credit from any</strong></td>
<td>100</td>
<td>59</td>
<td>59.0</td>
</tr>
<tr>
<td>Yes</td>
<td></td>
<td>59</td>
<td>59.0</td>
</tr>
<tr>
<td>No</td>
<td></td>
<td>41</td>
<td>41.0</td>
</tr>
<tr>
<td><strong>Source of Finance</strong></td>
<td>59</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>30</td>
<td>50.9</td>
<td></td>
</tr>
<tr>
<td>Savings and Loans companies</td>
<td>23</td>
<td>39.0</td>
<td></td>
</tr>
<tr>
<td>Micro finance companies</td>
<td>6</td>
<td>10.1</td>
<td></td>
</tr>
<tr>
<td><strong>Type of Funds you have attempted raising</strong></td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>10</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td>88</td>
<td>88.0</td>
<td></td>
</tr>
<tr>
<td><strong>Government effort at Promoting Sound Corporate Governance Practice among</strong></td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-2</td>
<td>60</td>
<td>60.0</td>
<td></td>
</tr>
<tr>
<td>3-5</td>
<td>40</td>
<td>40.0</td>
<td></td>
</tr>
</tbody>
</table>


Table 5.4 shows responses of the respondents when they were asked about the ability to source for funds from any Ghanaian financial institutions in the last three years. 59% of the respondents said they have sourced for funds from some Ghanaian financial institutions in the last three years whereas 41% of the respondents said they have not.

50.9% out of the 59 respondents who said they have sourced for funds said they sourced for the funds from the commercial banks, 39% of the respondents said they sourced for the funds from a savings and loans company and 10.1% of the respondents said the sourced for
the fund from micro finance companies. It is clear that most of them source for their funds from the commercial banks. This is in line with findings of Kuriloff et al. (1993), who were of the opinion that commercial banks usually provide loans for working capital or for the purchase of fixed assets.

20% of the respondents said they have attempted raising equity for the past three years whereas 80% of the respondents said they have attempted raising loans for the past three years. This shows SMEs depended more on the loans than equity.

On a scale of 0-9 where 0 is the least and 9 the highest, 60% of the respondents rated government effort between 0-2 whereas 40% of the respondents rated effort the government has put in place to promote sound corporate governance practice among SMEs between 3-5. This shows that the effort the government has put in place to promote sound corporate governance practice among SMEs is not very encouraging.

Table 5.5: Most Reliable source of fund

<table>
<thead>
<tr>
<th>Source of Fund</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>28(93.3%)</td>
<td>2(6.7%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings and Loans companies</td>
<td></td>
<td>10(33.3%)</td>
<td>20(66.7%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment banks</td>
<td></td>
<td></td>
<td>3(10%)</td>
<td></td>
<td>27(90%)</td>
</tr>
<tr>
<td>Micro finance companies</td>
<td>25(83.3%)</td>
<td></td>
<td>5(16.7%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family and friends</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30(100%)</td>
</tr>
</tbody>
</table>

Source: Fieldwork, January 2015. Note 1= Most reliable, 2= very reliable, 3 = reliable, 4= somewhat reliable 5= least reliable

Table 5.5 shows the most and least reliable source of funds for the SMEs. 93.3% of the
respondents said the commercial bank is the most reliable source of funds for them whereas 6.7% of them said it is very reliable. 83.3% of the respondents said the microfinance companies are the most reliable source of funds for them whereas 16.7% of the respondents said microfinance companies are reliable source of funds for SMEs. 100% of the respondents said family and friends are somewhat reliable. 90% of the respondents said investment banks are the least reliable source of funds for the SMEs whereas 10% of them said investment banks are very reliable source of banks for SMEs. 66.7% of the respondents said Savings and Loans companies are reliable source of funds to SMEs whereas 33.3% of the respondents said Savings and Loans companies are very reliable source of income to SMEs. The results shows that the most reliable source of funds for the SMEs are commercial banks. Investment banks were ranked as the least reliable. This finding supports views of Hisrich and Peters (1995) and longenecker et al. (1994) who both agreed that commercial banks constitute the most widely used source of debt financing for small companies. Again, this findings support Kuriloff et al. 1993 and Longenecker et al. 1994. They purported that, although loans and contributions from friends and relatives are common source of funds, especially for new business since the financial institutions are reluctant to providing funding for start-up business because of the risk involve, this source of funds, however, bears a potentially dangerous price. Many friends’ relatives find it very difficult to stay as passive creditors or investors. They usually try to interfere with policy and operational issues. For this reason most SMEs do not see loan from family and friends as very reliable.

5.1.4 Impact of corporate governance on lending decisions

30 respondents selected from some financial institutions were asked a number of questions pertaining to corporate governance practice and its impact lending decisions. The respondents were asked what they consider most important in giving loans to SMEs, the
number of SMEs they are currently dealing with, size of their total loan stock to the SME segment, factors considered most important in lending decision, documentation required from these SMEs before granting them loans, average time taken to grant loans, impact of corporate governance on overall assessment of clients who qualify for loans and finally their action towards SME clients who do not practice good corporate governance. Their responses are shown in Tables 5.6 – 5.8 and Figures 5.1

Table 5.6: Issues considered important in giving loan to SMEs

<table>
<thead>
<tr>
<th>Factors</th>
<th>1</th>
<th>2</th>
<th>3 (6.7%)</th>
<th>4 (93.3%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate governance</td>
<td>27(90%)</td>
<td>3(10%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit History</td>
<td></td>
<td></td>
<td>2(6.7%)</td>
<td>28(93.3%)</td>
</tr>
<tr>
<td>Type of industry</td>
<td>14(46.7%)</td>
<td>16(53.3%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profitability</td>
<td>25(83.3%)</td>
<td>5(16.7%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Fieldwork, January 2015. Note (1= most important, 2= important, 3= somewhat important, 4= least important)

Table 5.6 shows the most and least important factor considered in giving loans to SMEs. 93.3% of the respondents were of the opinion that corporate governance is the least important factor. Credit History was ranked by the majority if the respondent as the most important factor considered in giving loans to SMEs, followed type of industry and profitability.
Table 5.8: Factors considered most important influence on lending decisions to SMEs

<table>
<thead>
<tr>
<th>Factors</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collateral</td>
<td>23(76.7%)</td>
<td></td>
<td>7(23.3%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strong cash flow</td>
<td></td>
<td>9(30%)</td>
<td>17(56.7%)</td>
<td>14(46.7%)</td>
<td>16(53.3%)</td>
</tr>
<tr>
<td>Strong finance department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14(46.7%)</td>
</tr>
<tr>
<td>An active Board</td>
<td>11(36.7%)</td>
<td>19(63.3%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Fieldwork, January 2015. Note 1=Most important, 2= very important, 3 = important, 4= somewhat important 5= least important

When asked to rank factors which had the most influence on their lending decisions, (See Table 5.8) 76.7% of the respondents ranked collateral as the most important factor considered in lending decisions to SMEs followed by strong cash flow. The existence of an active board was the least influential. This shows clearly that as long as an SMEs are able to present collaterals, they are

5.7: Impact of Corporate Governance on Lending Decisions

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>N</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Number of SME Clients</td>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-20</td>
<td>3</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>21-40</td>
<td>6</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>41-60</td>
<td>9</td>
<td>30.0</td>
<td></td>
</tr>
<tr>
<td>Over 60</td>
<td>12</td>
<td>40.0</td>
<td></td>
</tr>
<tr>
<td>Percentage of Clients who are Incorporated Entities</td>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Characteristics</td>
<td>N</td>
<td>Frequency</td>
<td>Percent</td>
</tr>
<tr>
<td>------------------------------------------------------</td>
<td>-----</td>
<td>-----------</td>
<td>---------</td>
</tr>
<tr>
<td><strong>Current Number of SME Clients</strong></td>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-20</td>
<td>3</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>21-40</td>
<td>6</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>41-60</td>
<td>9</td>
<td>30.0</td>
<td></td>
</tr>
<tr>
<td>1-25%</td>
<td>9</td>
<td>30.0</td>
<td></td>
</tr>
<tr>
<td>26-50%</td>
<td>3</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>51-75%</td>
<td>3</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>75-100%</td>
<td>15</td>
<td>50.0</td>
<td></td>
</tr>
<tr>
<td><strong>Size of Total Loan Stock to the SME Segment</strong></td>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1-25</td>
<td>50</td>
<td>50.0</td>
<td></td>
</tr>
<tr>
<td>26-50</td>
<td>20</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>51-75</td>
<td>20</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>76-100</td>
<td>10</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td><strong>Documentation Required from SMEs when</strong></td>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average Time taken to Grant Loans</strong></td>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 to 12 months</td>
<td>9</td>
<td>30.0</td>
<td></td>
</tr>
<tr>
<td>3 to 6 months</td>
<td>12</td>
<td>40.0</td>
<td></td>
</tr>
<tr>
<td>1 to 3 months</td>
<td>3</td>
<td>10.0</td>
<td></td>
</tr>
<tr>
<td>Other (Less than 2 weeks)</td>
<td>6</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td><strong>Granting Loans to Clients who do not Practice Good Corporate Governance</strong></td>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>30</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>70</td>
<td>70</td>
<td></td>
</tr>
</tbody>
</table>


Table 5.7 shows that 50% of the respondents said SME segment commands from 1-25% of their loan stock. 20% of the respondents said the size of their total loan stock to the SME segment is between 26-50%, 20% of the respondents also said the size of their total loan stock to the SME segment is 51-75% and 10% of the respondents said the size of their total
loan stock to the SME segment is 75-100%. This shows that at least 50% of the banks total loan stock goes to SMEs.

40% of the respondents said it take 3 to 6 months to grant loan to an SME, 30% of the respondents said it takes 6 to 12 months to grant loan, 20% of the respondents said it takes less than 2 weeks to grant loans whereas 10% of the respondents said it takes 1 to 3 months to grant loan to SMEs. It is clear that the time take to grant loan depends on the type of institution the SMEs are sourcing funds from and other factors in terms of processes one needs to go through in obtaining loan from a particular financial institution. Microfinance and Savings and Loans banks were faster in processing loan application than commercial Banks.

Figure 5.1: Impact of corporate governance on overall assessment of clients who qualify for loans

Figure 5.1 shows the impact of corporate governance on the overall assessment of clients who qualify for loans by financial institutions. On the scale of 1-5 where 1 is lowest and 5 the highest, 30% each of the respondents placed the impact of corporate governance on the
overall assessment of clients who qualify for loans on the scale of 2 and 3. 20% of the respondents placed the impact of corporate governance on the overall assessment of clients who qualify for loans on the scale of 1 and 10% each placed the impact of corporate governance on the overall assessment of clients who qualify for loans on the scale of 4 and 5. The graph shows that most of these financial institutions do not see the impact of corporate governance on the overall assessment of clients who qualify for loans.

5.1.5 Test of Hypothesis

Corporate Governance as Criteria for granting Credit to SMEs

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>2.800</td>
<td>4</td>
<td>.700</td>
<td>.00</td>
</tr>
<tr>
<td>Within Groups</td>
<td>3.500</td>
<td>25</td>
<td>.140</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6.300</td>
<td>29</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Hypothesis**

H₀: Banks consider Corporate Governance practice as criteria for granting credit to SMEs

H₁: Banks do not consider Corporate Governance practice as criteria for granting credit to SMEs

Table 5.9 shows the test of the hypothesis. From the Table, the p Value is 0.004 which is less than the alpha value 0.05. Thus we reject the null hypothesis that Banks do consider corporate Governance practice as criteria for granting credit to SMEs.

This means that in actual sense banks granted credit to SMEs in spite of their non-adherence to good corporate Governance practice.
5.2 Discussion of findings

The findings of the study are discussed below.

5.2.1 Stakeholders Awareness and Practice of Corporate Governance.

The study disclosed that while all the respondents have heard of the term corporate governance, a more than 60% admitted that they were not well informed about corporate governance principles. This clearly showed in the result of the test of the various corporate governance principles. Majority of them had an average board size of 4 which is dominated by shareholders. This finding is in line with Huse (2000) stating that the SME board has been referred to as the apex of the company’s decision control system. Majority of SMEs are closely held and owner-managed and the owners normally do have direct and more insights into internal processes of the SME. Similarly, Cowling (2003) stipulated that most SMEs, are closely held and owner-managed and the owners generally do have direct and more insights into internal processes of the firm.

The study also revealed that while all (100%) respondents said they have board of directors, only 15% of the respondents had directors external to them. Though this finding is similar to that of Pettigrew and McNulty (1995) who found that there are also examples of SMEs having active boards with outside members, for which they consider the boards of directors as a means for strategy development; it also goes to show that majority if SME shareholders have still not graphs the huge impact an external director could have on the fortunes of the company. The presence of some outside directors is related positively with an elevated output of funded capitals, even though most of the enterprises display a board dominated by the internal people.

Boards of directors normally bring out the formal link between owners and their managers responsible for the day-to-day operations of the SME. Boards of directors are seen to be
more independent as the proportion of their non-executive directors increases. (See John and Senbet (1998).

Also 60% of the respondents had majority if the board members being shareholders, thus showing evidence of strong owner controlled boards. The table also show that for 50% of the respondent shareholders constitute more than 50% of management. This again shows a strong board controlled management. This also answers the question why most of the SMEs in this study do not see the need for frequent board meetings. For the majority of them, meetings are held semi-annually or annually. This supports Cowling, (2003) assertion that for most SMEs boards exist on paper only, the boards control function is non-existent.

This same trend is seen in the question of CEO duality. 70% of the respondents said the chairperson of the board is not separated from the CEO whereas 30% of the respondents said the chairperson of the board is separated from the CEO. Though this result a good number of the respondent (30%) had the CEO separated from the board, a follow up interviews with some of them revealed that in most cases the CEO was very closely related to the board chairman, so the issue of lack of independence is still rife.

60% of the respondents said their company has no board committees whereas 20% of the respondents said their company has board committees. 20% of the respondents however, do not have an idea whether the company has board committees.

5.2.2 Impact of Corporate Governance Practice on SMEs Credit

All the respondents said they have sourced for funds from some Ghanaian financial institutions in the last three years. It is clear that most SMEs source for their funds from the commercial banks.

This finding supports views of his rich and Peters (1995) Longenecker et al (1994) who both agreed that commercial banks constitute the most widely used source of debt financing for
small companies. Again, this findings support Kuriloff et al. 1993 and Longenecker et al. 1994. They purported that, although loans and contributions from friends and relatives are common source of funds, especially for new business since the financial institutions are reluctant to providing funding for start-up business because of the risk involve, this source of funds, however, bears a potentially dangerous price. Many friends’ relatives find it very difficult to stay as passive creditors or investors. They usually try to interfere with policy and operational issues. For this reason most SMEs do not see loan from family and friends as very reliable.

On three different questions, the majority of the financial institutions ranked the least among other competing considerations. Firstly corporate governance was rank least among four factors namely (Credit History, Type of industry and firms profitability. When asked to rank factors which had the most influence on their lending decisions, 76.7% of the respondents ranked collateral as the most important factor considered in lending decisions to SMEs followed by strong cash flow. The existence of an active board was the least influential. Thirdly on a scale of 1 to 5 with 1 being the lowest and 5 highest, when the financial institutions where ask to indicate the overall impact of corporate governance practice on their lending decision, majority place corporate governance between the scale of 2 and 3. This finding supports that of Aryeetey et al. (1994s) who were of the opinion that the availability of collateral plays a significant role in the readiness of banks to meet the demand of the private sector. They mentioned that, collateral provides an incentive to repay and offset losses in case of default. According to him, among firms that had their applications rejected, lack of adequate collateral (usually in the form of landed property) was the main reason given by banks. Also according to Kuriloff et al. (1993), commercial banks usually provide loans for working capital or for the purchase of fixed assets. They demand evidence of a company’s ability to pay the interest and principal as scheduled. This
evidence is usually in the form of cash flows statements. They also demand some form of security.

This finding is however contrary to Kabiru and Azende, (2000) who were of the opinion that majority of banks do not pay more attention to the development of SMEs by means of financing because of SMEs’ poor corporate governance.

This findings bring two issues to the fore. Firstly while good corporate governance practice by client may be the most ideal for financial institutions, they however do not use a corporate governance scorecard in deciding whether or not to grant credit to SMEs. Thus a company may not have all the trappings of good corporate governance, if the show evidence of good cash flow, and present an acceptable collateral, they are likely to be granted credit.

The second issue has to do with the size if the SME sector. In Ghana more than 90% of all businesses in Ghana can be classified as SMEs. (KDI, 2008). This obviously means the majority of the clientele of the financial institutions in this study would be SMEs, thus using a corporate governance card as a criterial to grant credit would mean not granting credit at all, hence their heavy reliance on collaterals.

Another point worthy of note is that all the all the lender needs is an assurance of his loan recoverability. As Kuriloff et al. (1993) posited, the commercial banks usually provide loans for working capital or for the purchase of fixed assets. They demand evidence of a company’s ability to pay the interest and principal as scheduled Thus if this assurance can be obtained from an SME, then the fact that there are less external directors, small size board or CEO doubles as board chairman or absence of committees does not matter.
Chapter Six: Conclusions And Recommendations

6.0 Introduction

This chapter summarizes the findings, conclusion of this study as well as suggestions for further research.

6.1 Summary of Findings

Considering stakeholders awareness of corporate governance principles, the study posited that although majority of SMEs have heard about corporate governance, a significant number of them are not well informed about the issues of corporate governance. The study also revealed that most of the SMEs have a board who appoint the CEO although this was not so with all the organizations. The findings also showed that for most of the organization, the chairperson of the board is not separated from the CEO. Majority of the SMEs in this study had a board size if 4 on the average, with less than 15% being external directors. Majority of the organization where without board committees with some even not being aware of existence of such committees. The study revealed the most SMEs are still largely owner managed and controlled.

The above situation however the study revealed does not directly influence the financing decisions of the financial institutions. The study found that all the SMEs at least attempted sourcing for finance over the last three years and most of them found the commercial banks to be their most reliable source, though some of them also successfully sourced from savings and loans banks and micro finance institutions.
With respect to the importance of corporate governance on lending decisions, the study revealed that most financial institutions consider corporate governance as the least important in giving loans to the SMEs. The study also revealed that the size of the financial institutions total loan to the SME segment is about 1-50%. This can limit the amount of funds the financial institutions can release as loans to these SMEs. Among all the factors considered by financial institutions in the lending decisions to SMEs, collateral was considered the most important although other factors like strong cash flow, existence of board and strong finance department are also significant factors considered in lending decisions. For documentation required from SMEs when sourcing for loans, the study revealed that a simple application by managing director and board resolution authorizing the borrowing is needed to process the loan. The study showed that the average time taken to grant a loan is 3 to 6 months. However, this does not run through all the financial institutions. The time could be less or even more for some financial institutions. The study also revealed that, most of the financial institutions do not know the impact of corporate governance on the overall assessment of clients who qualify for loans. For this reason, even though majority of the financial institutions admitted that they will not grant loans to SMEs who do not practice good corporate governance, a significant number of the financial institutions also admitted they would not deny but grant loans to SMEs who do not practice good corporate governance even when they are in the know.

6.2.1 Conclusion

The essence of this study has been to examine the level of corporate governance practice among Ghanaian SMEs and how that has impacted the SMEs’ access to credit.
According to Berglof and von Thadden (1999), corporate governance has dominated policy agenda in developed market economies for more than a decade, and it is gradually worming its way to the top of the policy agenda on the African continent. Ghana have seen some legislative reforms which has impacted the general corporate governance environment. Corporate governance has however been mostly emphasized on larger enterprises. The study showed in spite of all the argument made for good corporate governance, it actual practice among SMEs in Ghana is almost none existent. Key corporate governance indicators like Board Chairman/CEO duality, Inclusion of External Directors on the Board, Presence of Board Committees, and Expertise of Board members were absent.

The above notwithstanding the study also revealed that corporate governance score is not considered as important by the financial institutions in giving loans to SMEs, and clearly it has no impact on the overall assessment of clients who qualify for loans. Good as this a few points are worthy of note.

In Ghana more than 90% of all businesses in Ghana can be classified as SMEs. (KDI, 2008). SMEs have been noted to contribute about 85% of manufacturing employment (Steel and Webster, 1991) and account for about 92% of businesses in Ghana. This obviously means the majority of the clientele of the financial institutions would be SMEs, and so using a corporate governance score card as a criterial to grant credit would be counterproductive hence their heavy reliance on collaterals.

Another point worthy of note is that lenders are more concerned about loan recoverability. So if an SME can prove their ability to pay, the banks do not bother about whether or not such an SME practices good corporate governance.
In order to boost the corporate private enterprise and effectiveness of SMEs, good corporate governance must be practiced. Applying the guidelines of good corporate governance adds more to a SMEs’ value creation process than it takes away. The role board members and other stakeholders play in a firm cannot be underestimated.

6.2.2 Recommendations

At the heart of the whole SME- corporate governance discussion is the desire to put SMEs on the path of sustainable growth and make them attractive for financial intermediaries via the vehicle of good corporate governance practice. Though this study found that corporate governance score was not on top of the assessment criteria by banks in granting credit; a case still exist for policy makers and stakeholders in the SME sector to pay more attention to the issue of corporate governance among SMEs.

The result of this study also shows that though more room exist for further research on this subject with the view to making good corporate governance practice among SMEs the norm rather than the exception.
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USAID’S Development Credit Authority (DCA) Ghana Impact Brief, April, 2009


Title: IMPACT OF CORPORATE GOVERNANCE PRACTICE ON SME FINANCING IN GHANA

Dear Respondent,
This is a research study being conducted on the above topic. In view of this, I would be very grateful if you could respond to the following questions. Your identity will by no means be revealed in any form, so feel free to complete the questionnaire with objective and independent judgment. Information provided shall be treated strictly confidential and for academic purpose only.
Thank you.

Instruction: Please tick ( √ ) the box that best represents your view

SECTION A

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Demographical Data

1. **Sex:**
   - Male [ ]
   - Female [ ]

2. **Age:**
   - 0-5 [ ]
   - Over 5 years [ ]

3. **Position:**
   - Management [ ]
   - Board Member [ ]
   - Shareholder [ ]

4. **Industry:**
   - Manufacturing [ ]
   - Agriculture [ ]
   - Commerce [ ]

**SECTION B**

This section assesses stakeholder awareness of corporate governance principles.

**Q1**

Have you heard about corporate governance?
( ) Yes. ( ) No

**Q2**

How would you rate your knowledge of corporate governance issues?
( ) Very well informed ( ) Not so much informed ( ) Not Informed at all

**Q3**

a. Does the company have board of directors?
   ( ) Yes ( ) No

b. If the answer to the above question is yes, what is the size of the board?
   ( ) 2 - 4 ( ) 5 - 7 ( ) 8 - 11

C) How often does the board meet in a year. Do you have a representative on the Board?
( ) Quarterly  ( ) Semi-annually ( ) annually ( ) Not at all ( ) State if other ……….

Q4

a) How many shareholders are part of the board?
   ( ) 1-2  ( ) 3-4 ( ) 5-7  All ( ) None ( )

How many members of the board are part of management?
   ( ) 1-2  ( ) 3-4 ( ) 5-7  All ( ) None ( )

Q5

What is the average age of the board member?
   ( ) 20 -40  ( ) 40 -60  ( ) 60 -75  ( ) above 75

Q6

Does the board appoint the CEO?
   ( ) Yes  ( ) No

Q7

c) Is the chairperson of the Board separated from the CEO?
   ( ) Yes  ( ) No

Q8

In your opinion which of the following is the main consideration for appointment to the board of directors by the shareholder(s).

a. Family Relations
b. Friends
c. Professional expertise.
d. All of the above
e. Other (please specify) ……

Q9
In your opinion which of the following is the main consideration for appointment of management of the company by the Board?
a. Family Relations
b. Friends
c. Professional expertise.
d. All of the above
e. Other (please specify) ……

Q10
Does the company have board committees?
a. Yes (  ) b. No (  ) c. No idea. (  )

Q11
If the answer to the above question is Yes, are the committees of the board formally appointed?
a. (  ) Yes (  ) No c. No idea. (  )

Q12
a) How would you rank the following subcommittees of board in order of relevance to your company? From 1 (highest) to 4 (lowest)
   i. Audit committee ii. Compensation & Nomination committee iii. Finance committee iv. Legal & Regulatory committee
   1 (  ) 2 (  ) 3 (  ) 4 (  )

Q13
a) Are Board members compensated?
   (  ) Yes (  ) No

b) If the answer to (a) above is Yes, please state how
   (  ) Based on share ownership (  ) Based on operating Performance (  ) State if other……..
SECTION C

This section assesses the company’s ability to source financing

Q14
a) Have you sourced for Financing from any Ghanaian financial institution over the last 3 years?
   ( ) Yes     ( ) No

Q15
If your answer to the above question is yes, please indicate which of the following sources you raised the funds from successfully.
( ) Universal Banks    ( ) Savings and Loans Companies    ( ) Investment Banks    ( ) Micro finance Companies    ( ) Others (please specify)…………………

Q16
Please rank in order of importance your most reliable source of fund. From 1(highest) 5 (lowest)
   a. Commercial Banks, b. Savings and Loans Companies , investment Banks    d. Micro finance Companies    e. Friends and Family
   1. ( ) 2.( ) 3. ( ) 4. ( ) 5. ( )

Q17 Please indicate the type of funds you have attempted raising over the last 3 year
( ) Equity    ( ) Loans    ( ) Bonds    ( ) Convertible Bonds    ( ) Other

Q18
How long did it take on the average for your loan application to be granted?
   a. 6 to 12 months b. ( ) 3 to 6 months ( ) c. 1 to 3 months
   c. Other (please specify)…………………………

Q19
Which of the following factors do you consider the most influential to the success of your loan application? (Please rank in order of importance from 1 (least important) to 5 (Most important)
   i. Collateral ( ) ii. Strong Cashflow ( ) iii. Strong finance department ( ) iv. Existence of a board ( ) v. Other………………………..( ) (please specify)

Q20
On scale of 1 to 10, how would you score government effort at promoting sound corporate government practice among SMEs in Ghana?
( ) 0 - 2  ( ) 3-5  ( ) 6-8  ( ) 9-10

Thank You.
Title: IMPACT OF CORPORATE GOVERNANCE PRACTICE ON SME FINANCING IN GHANA.

Questionnaire for Banks and Financial institutions

Dear Respondent,
This is a research study being conducted on the above topic. In view of this, I would be very grateful if you could respond to the following questions. Your identity will by no means be revealed in any form, so feel free to complete the questionnaire with objective and independent judgment. Information provided shall be treated strictly confidential.

Instruction: Please tick ( ) the box that best represents your view.
SECTION A

Q1
Which of the following best describes your organization?

a. Universal Bank
b. Savings and Loans
c. Investment Banks
d. Microfinance
e. Other (Please specify)……………..

SECTION B

This section assesses the importance of corporate governance on lending decisions.

Q2
1. Which of the following does your institution consider as most important in giving loans to SMEs. Please rank from 1( Highest) to 4 (Lowest)
   i. Corporate governance.
   ii. Credit history
   iii. Type of industry
   iv. Amount of loan

   1 (   )  2. (   )  3. (   )  4. (   )

Q.2
Kindly indicate the number of SME clients you currently deal with

d. (   ) 0 -20   b. (   ) 21 – 40   c. (   ) 41 – 60 d. Over 60

Q3
What percentage of these are incorporated entities?

a. (   ) None   b. (   ) 1- 25%   c. (   ) 26 – 50%  d. (   ) 51- 75% e. (   )75 – 100%

Q4
What is the size of your total loan stock to the SME SEGMENT?

a. (   ) 1- 25%   b. (   ) 26 – 50%.   c. (   ) 51- 75% d. (   )75 – 100%

Q5
Which of the following factors do you consider most important in your lending decisions to SMEs. (Please rank in order of importance from 1 (most important) to 5 (least important))

j. Collateral (   ) ii. Strong Cashflow (   ) iii. Strong finance department (   ) iv. Existence of a board (   ) v. Other…………………………(   ) (please specify)

Q6
Which documentation do you take from SMEs when advancing loans?

i. A simple application by the Managing Director (  )
ii. Board resolution authorizing the borrowing (  )
iii. Word of mouth (  )
iv. None of the above (  )

Q7
How long does it take on the average to grant a loan application to an SME applicant?

b. 6 to 12 months  b. ( ) 3 to 6 months  ( )  c. 1 to 3 months

d. Other (please specify)…………………………

Q8.
On a scale of 1 to 5, where would you place the impact of corporate governance on your overall assessment of clients who qualify for loans?

1. ( ) 2. ( ) 3. ( ) 4. ( ) 5 ( )

Q9
If you knew a client who did not practice good corporate governance would you still grant a loan to them?

Yes (  )  No (  )

Q10
On scale of 1 to 10, how would you score government effort at promoting sound corporate governance practice among SMEs in Ghana?

( ) 0 - 2  ( ) 3-5  ( ) 6-8 ( ) 9-10