CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES. A CASE OF SELECTED MEDIA HOUSES IN KAMPALA DISTRICT

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A DISSERTATION SUBMITTED TO MAKERERE UNIVERSITY BUSINESS SCHOOL FACULTY OF GRADUATE
AND RESEARCH STUDIES IN PARTIAL FULFILLMENT OF THE AWARD
OF A MASTERS OF BUSINESS ADMINISTRATION
OF MAKERERE UNIVERSITY

PLAN A

DECEMBER, 2021

DECLARATION

I, Maseruka Deo declare that this dissertation is my own work and has never been presented for degree award to any University or institution, but due acknowledgement has been done where it is indebted to the works of others.

Signed………………………………………… Date………………………......

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APPROVAL

This dissertation has been supervised and approved by the following supervisors:

Signed………………………………………… Date……………………….....

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Signed………………………………………… Date…………………………...

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LIST OF ACRONYMS

BoD- Board of Directors

CEO- Chief Executive Officer

CG- Corporate Governance

CSR- Corporate Social Responsibility

GCI- Global Corporate Index

GDP- Gross Domestic Product

ILO- International Labor Organization

IRA- Insurance Regulatory Authority

KCCA-Kampala Capital City Authority

LDCs- Less Developed Countries

MSMEs- Micro-Small and Medium Enterprises

ROA - Return on Assets

SMEs- Small and Medium Enterprises

SPSS- Statistical Package for the Social Science

UBA- Uganda Bankers' Association

UIA- Uganda Investments Authority

USE- Uganda Securities Exchange

URSB- Uganda Registration Services Bureau

USE- Uganda Securities Exchange

ACKNOWLEDGEMENT

This dissertation is dedicated to the memory of my late mother Josephine Nalukwago. Although she was my inspiration to pursue my Master's degree, she was unable to see my graduation. This is for her. This dissertation is also dedicated to my sister Kaala Ruth and husband Mr. Kagenda Moses who laid a ground for me to start and finish this course
Thank you to my supervisors Associate Prof Vincent Bagire (Phd) and Madam Eunice Kabahinda who guided me in this process as they always kept me on track.
I dedicate this dissertation to my A-level Entrepreneurship teacher Mr. Bateeze Ronnie who inspired my pursuit of business studies.
To my workmates Mr. Noah Ssemakula and Mr. Luyinja Steuart plus CPA Beyagala Godfrey who have impacted on my professional career.
This dissertation is dedicated to my classmates Tusiime Doreen, Musene Eunice, Anena Doreen, Nayebare Patience, Tumwesigye Abel, Arinaitwe Martin and Lubanga S. Hosea who encouraged me to pursue my dreams and finish my dissertation.

I also dedicate this dissertation to eight great men in the media: Dr. Sam Kazibwe(Phd), Snr Hassan Badru Zziwa, Mr. Lumansi David, Mr. Haruna Kyoobe, Mr. Lukyamuzi Joseph Mr. Peter Kibazo Pastor David Ronald Mubiru and Mr. Kiwuuwa Charles James Smart Mugenyi whose radio programs, and publications are well researched and inspired me to be a researcher.

Dedication of this dissertation is also made to Engineer Immanuel Ben Missagga, his passion for all the work he involves in inspired me to and gave me determination to finish this dissertation

Lastly I dedicate this dissertation to Mr. Ainomugisha Michael who provided I.T support to me whenever I needed help

ABSTRACT

The SME sector in Uganda has undergone tremendous growth and transformation over the past and has come out as the most active sector in the Ugandan economy. Currently, SMEs in Uganda are responsible for about 80% of employment and contributes about 40% of the GDP. However, due to the dynamic nature of the business environment, SMEs are adopting the corporate governance practices in order to maintain a competitive edge in the market. Corporate governance is the means by which an organization is directed and controlled and held accountable. In this regard, it has been noted that well governed firms largely perform better and that good corporate governance practices is of essence to any firm's financial performance. The main objective of this study was to investigate the effect of corporate governance on financial performance of Small and Medium Enterprises in Kampala District, Uganda. Specifically, the study examined existence of the various corporate governance practices in the sampled SMEs in Kampala District such as Risk Management, Number of board meetings, Laying strategic plans, and age of the SMEs and how they affect their financial performance. The performance of SMEs was measured using Turnover, Net Profit, and Cash flows. The study adopted descriptive research design. The population included all the 57 media houses in Kampala District operating as at 30th December 2020 and a sample from each category of business was identified and used to collect information. The study made use of primary data collected using the questionnaires. Data was analyzed using a multiple linear regression model. The study found that there is a significant strong relationship between the SME‟s financial performance and corporate governance. Risk management, number of Board meetings, Laying strategic plans, and the sage of the SMEs were found to significantly affect the financial performance of SMEs in a positive direction. The study recommends that SMEs should embrace corporate governance to the fullest to achieve better financial performance. SMEs are also recommended to consider holding frequent board meeting to talk about the state of affairs of the business. SMEs are also encouraged to have strategic plans that provide a direction to the company

SECTION ONE

1.1 Background to the Study

Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. Formal SMEs contribute up to 60% of total employment and up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to our estimates, 600 million jobs will be needed in the next 15 years to absorb the growing global workforce, mainly in Asia and Sub-Saharan Africa. In emerging markets, most formal jobs are generated by SMEs, which also create 4 out of 5 new positions (Word Bank 2015).

Small, and Medium, Enterprises (SMEs) are the engine of growth for the economic development, innovation, wealth creation of Uganda. They are spread across all sectors with 49% in the service sector, 33% in the commerce and trade, 10% in manufacturing and 8% in other fields. Over 2.5 million people are employed in this sector, where they account for approximately 90% of the entire private sector, generating over 80% of manufactured output that contributes 20% of the gross domestic product (Uganda Investments Authority 2016).

Corporate Governance is important to all businesses, large and small (Sibindi, 2015). However, SMEs are unaware that they can often achieve their objectives without spending large amounts of money and that the returns, in terms of cost savings, can be quite significant. Although the reward for Corporate Governance might sometimes not be immediate, the reputation a business acquires might be long-lasting and could bring in new customers. Generally, consumers are more willing to buy from businesses a track record of good corporate governance practices since it is assumed that they are socially responsible business compared to one that is socially irresponsible (Encyclopedia of Socially Responsibility management 2013).

SMEs are responsible for entrepreneurial development, poverty alleviation and improved quality of life, resource mobilization, business adaptability and sustainability (Tushabomwe, 2010). Mbabazi (2012) agrees that SMEs provide the economy with a continuous supply of ideas, skills and innovation necessary to promote competition and the efficient allocation of scarce resources. Today, SMEs are estimated to contribute over 80% of manufactured goods. This implies that SMEs should be closely monitored to ensure that risk and vulnerability do not impede their growth. Despite the important role of SMEs in the Ugandan economy, the rate of their demise at 50% annually leaving a lot to be desired (Enow & Kamala 201). Global Entrepreneurship Monitor (GEM) report 2014, ranked Uganda as the second highest in business startups per year but with one of the highest business failure rates in the world. The main reason for this alarming rate is poor financial performance. However, this failure rate can be checked by SMEs incorporating corporate governance practices in their operations. The basic corporate governance practices among others include: risk management, Board, Board activity, and laying of strategic plans (Maranga 2014)

The Media industry in Kampala is a sophisticated, diverse, dynamic and lively mass media sector characterized by television, radio, print and a thriving new media such as internet and mobile telephones. The types of media can be classified broadly as private or independent media; the public state broadcaster; the private local language radio; community radio; the independent religious stations; the alternative press; international media and new media. They serve various and diverse information, education, religious, advertising and entertainment needs of various segments of their audiences in Kampala and beyond, (Sinoveit Report, 2018).

1.2 Statement of the Problem

In Uganda SMEs play a vital role in economic development, making up 67% Uganda's business sector (Lutwama, 2009), however, the majority of these enterprises do not reflect the signs of desirable performance such as being profitable or converting into medium or large enterprises. It is reported that one third of SMEs started in Uganda do not see their "first birthday" (Tushabomwe-Kazooba, 2006). Frank Asiimwe (2017) warned that starting an SME in a developing country like Uganda is a risky venture since its chances of going past a five-year mark are very slim. Experts associate this high death rate of SMEs in Uganda to poor financial performance as a result of failure to apply effective business governance skills by proprietors. Corporate governance (CG) has been proposed as an impressive organ to invigorate the operations and competitiveness of SME. Brown and Caylor (2004) describes the relationship that exists between good corporate governance and financial performance. Research indicates that media houses with better corporate governance guarantee the payback to the shareholder and limit the risk of the investment. The association between quality of corporate governance and firms' profitability is quite major focus in corporate governance studies. Indeed, practicing good governance helps media houses to establish robust business processes and prepare them for future expansion. Although (CG) has been mainly discussed in the context of larger businesses such as listed companies, there is compelling evidence that it can be used as a strengthening tool to enhance the financial performance of SMEs in the media industry (Mandl, 2009)

1.3 Purpose of the Study

The study seeks to assess the relationship between Corporate Governance and financial performance of Small and medium enterprises in Kampala District.

1.3.1 Research Objectives

From the above general objective, the following specific objectives were derived.

(i) To establish the relationship between risk management and the financial performance of SMEs in

Kampala District.

(ii) To determine the relationship between board meetings and financial performance of SMEs in Kampala

District.

(iii) To examine the relationship between laying of strategic plans and financial performance of SMEs in Kampala District.

(iv) To establish the moderating effect of age of an SME on the relationship between corporate governance and financial performance of SMEs in Kampala District.

1.3.2 Research Questions

(i) What is the relationship between risk management and financial performance of SMEs in Kampala District?

(ii) What is the relationship between board meetings and financial performance of SMEs in Kampala District?

(iii) What is the relationship between laying of strategic plans and financial performance of SMEs in Kampala District?

(iv) What is the relationship between duration in operation and financial performance of SMEs in Kampala District?

1.4 **Scope of the Study**

1.4.1 **Geographical Scope**

The geographical scope of the study is Kampala district covering the five divisions of Kawempe, Lubaga, Makindye, Nakawa, and central division. A sample of 54 media houses shall be selected from the total number of 57 media houses in Kampala district.

This study focuses on Corporate Governance and the performance of SMEs in Uganda, and particularly media houses those located in Kampala District, the Capital City of Uganda. This is because Uganda is private sector-led economy and SMEs constitute more than 90 percent of this sector. SMEs also significantly contribute to socio-economic development of the country.

1.4.2 Content scope

The Study will explore the relationship between Corporate Governance and performance of small and medium enterprises dealing in the media category in Kampala District. The study will specifically explore the effect of corporate governance on the expansion of SMEs in Uganda, to establish how Corporate Governance has improved the financial performance of Small and Medium Enterprises dealing in broadcasting business and lastly, the effect of corporate governance towards the profitability of selected SMEs in Uganda.

1.5 **Significance of the study**

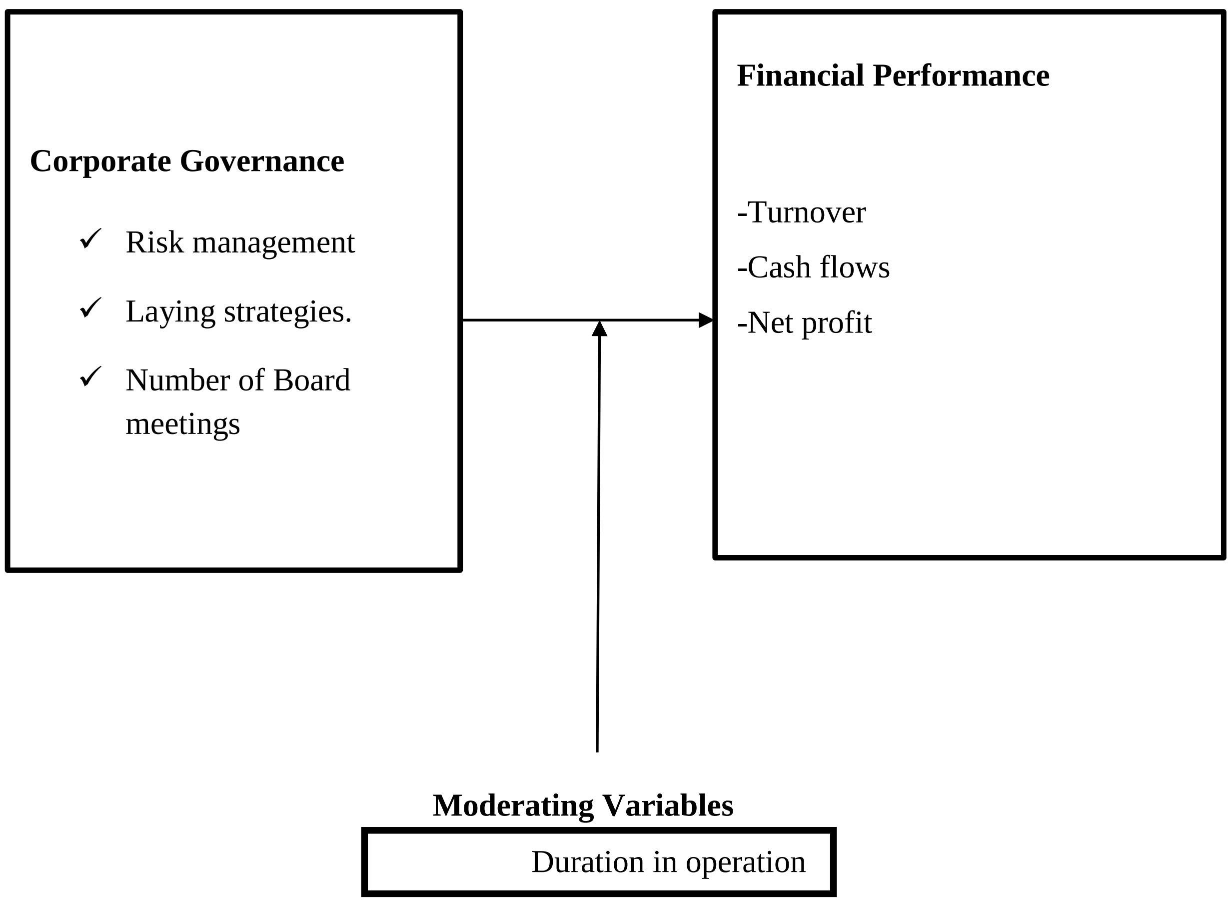
The findings of the study will be of the following significance;

i. Corporate Governance is a relatively new concept in Uganda and up to now no systematic research has been conducted pertaining thereto. The literature on Corporate Governance in Africa, and particularly in Uganda, is fairly underdeveloped. Therefore, this research on corporate governance and financial performance of small and medium enterprises in Uganda is important because it will fill both academic and strategic research gaps.

ii. The study will indicate a practical model that describes the nature of the relationship between Corporate Governance and financial performance of SMEs in media through the definition of best practice tools and methods. The model will be used extensively by SMEs as an integral part of the overall strategy to enhance their financial performance.

iii. The study will offer a great opportunity for proper management of media houses in Uganda, with a view of enhancing their competitiveness locally and globally. Appropriate Corporate Governance activities within the Ugandan context could serve as a strategic tool to improve the performance of media houses. This could in turn improve the survival rate of these SMEs, thus significantly contributing to the socio-economic development of Uganda.

1.6 Conceptual Framework



Adopted from Jennifer O. Osiako 2017, and modified by the researcher

The conceptual framework above posits the relationship between Corporate Governance (independent variable) and financial performance of SMEs (dependent variable). The study reveals that the constituents of corporate governance can contribute towards the Performance of SMEs by improving on the quality of products in the company, realization of higher motivation and loyalty of employees, business expansion is realized, better labor market position, Cost savings, increased Profitability, and increased Turnover/sales.

However, there are other extrinsic variables that are external to the study such as the taxation policy which might influence the results when ascertaining the relationship between the variables. In this regard, the influence of the moderating variables must be gauged and controlled by eliminating them so as to ensure that the variables under investigation are not manipulated.

SECTION TWO

LITERATURE REVIEW

2.0 Introduction

This chapter focuses on the review of relevant literature and review of major theories and models of corporate governance and performance of small and medium enterprises. It focuses on three research objectives in their chronological order.

2.1.1 Corporate Governance

A number of definitions have been given to corporate governance. Corporate governance is concerned with ways of bringing the interests of (investors and managers) into line and ensuring that firms are run for the benefit of investors, (Huyghebaert & Wang, 2012). Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability, (Deakin and Hughes, 2014). It has also been defined by Keasey et al. (2014) to include ''the structures, processes, cultures and systems that engender the successful operation of the organizations''. Corporate governance is also seen as the whole set of measures taken within the social entity that is an enterprise to favor the economic agents to take part in the productive process, in order to generate some organizational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organization (Maati, 2009). From these definitions it may be stated more generally that different systems of corporate governance will embody what are considered to be legitimate lines of accountability by defining the nature of the relationship between the company and key corporate constituencies. Corporate governance systems may be therefore thought of as mechanisms for establishing the nature of ownership and control of organizations within an economy. In this context, corporate governance mechanisms are economic and legal institutions that can be altered through the political process – sometimes for the better (Shleifer and Vishny, 2014).

Company law, along with other forms of regulation (including stock exchange listing rules and accounting standards), both shape and is shaped by prevailing systems of corporate governance. The impact of regulation on corporate governance occurs through its effect on the way in which companies are owned, the form in which they are controlled and the process by which changes in ownership and control take place (Jenkinson et al, 2012). Ownership is established by company law, which defines property rights and income streams of those with interests in or against the business enterprise (Deakin and Slinger, 2014). The definition of ‘‘ownership’’ is problematic in this context, (Njoya, 2009). At the bottom, differences in conceptions of ownership lead to differences in forms of control and, therefore, differences in the formulation and implementation of corporate strategy, (Deakin & Hughes, 2014).

Corporate governance describes how companies ought to be run, directed and controlled. It is about supervising and holding to account those who direct and control the management. For an SME, it concerns the respective roles of the shareholders as owners and the managers (the directors and other officers). It is about setting rules and procedures as to how the company is run. It is also about putting checks and balances in place to prevent abuses of authority and ensure the integrity of financial results. As a result, the role and independence of the auditor has been under the microscope, (Anderson, 2011).

2.1.2 Corporate governance in media houses

Studies of media firms have shown that media firms pursue different managerial goals when they are publicly owned. Robert G. Picard (2005), for example, found that the degree of public ownership and outside control affects financial performance of companies that they had more short term financial aims and concentrated on higher return on equity and earning than privately owned papers.

Musungu (2019), asserts that in the performance of their activities, the commercial media should satisfy the interests of their owners (shareholders), those of their employees, clients and all concerned (stakeholders) and those of the citizens (society). In order to achieve harmoniously those objectives, it is desirable that the highest governance body (the Board of Directors) would accept that the news professionals, led by the Editor, are the “agent” for the maximization of the value for society, the same way it usually accepts that executives, directed by the CEO, are the “agent” for the maximization of value for the shareholders

2.1.3 Small and Medium Enterprises:

Uganda Investments Authority (2008) defines SMEs as businesses, which employ 50 or more employees with annual sales up to Ugx 360,000,000, and total assets of up to Ugx 360,000,000. They operate from well-established and permanent business premises. They use advanced technology and produce on a relatively large scale. They require a lot of capital to be started and such businesses are formally registered as limited liability companies. These businesses may be producing for the local as well as the export market. Examples of such businesses include big bakeries, milk processing and packaging businesses, coffee hulling factories, mattress manufacturing factories, among others (Daily Monitor SME survey 2019).

2.1.4 Theoretical review

The shareholding model of corporate governance

Central to the shareholding corporate governance model is the doctrine of shareholder value and primacy. It suggests that a firm must be run to primarily advance the interests of its owners. This is based on a basic assumption that ownership is separate from control in an Anglo-American model. That is, in this corporate governance system, the providers of capital (owners/shareholders) surrender the day-to-day management (control) of the business to a group of managers, consisting of a 'unitary' board of directors and executive management, who are frequently not owners of the corporation themselves. Of close relevance is that through multiplicity of shareholders, ownership in this corporate governance model is quite often relatively widely diffused (Collins, 2018).

A major implication from dispersed ownership is that the power of shareholders to exercise control over the way their business is run is greatly impaired. This raises serious agency problems, which is the central theoretical framework that underpins this essay.

However, the agency theory suggests that since shareholders (principals) have to delegate the control of their business to a few directors and managers (agents) to run the company on their behalf, there is a potential risk that directors and managers will pursue their own interests to the detriment of the eventual owners – shareholders (Smith, 1776). This is also based on the premise that managers are both opportunistic and rational such that, on average, they are more likely to pursue their self-interests than those of shareholders (Weimer and Pape, 1999).

The Stewardship theory requires directors to be accountable to owners for the resources entrusted to them. This theory represents a consensus perspective which rejects the notion that the board of directors is a disciplining mechanism to align conflict of interest between shareholders and managers. The stakeholder theory holds that companies are accountable for their stewardship over the resources entrusted to them by a coalition of various stakeholders which include shareholders, employees, suppliers, bankers, regulatory authorities and the general public. Erhardt et al. (2003) argued that the theory reveals the function of the board of directors in the creation of utilities thus allowing other variables of production to earn their rewards. Finally, the agency theory sees the directors as agents of the shareholders and focuses on the need for them to act in the best interest of shareholders.

2.1.5 Stakeholder theory

The stakeholder theory is a theory of organizational management and business ethics that accounts for multiple constituencies impacted by business entities like employees, suppliers, local communities, creditors, and others. Concepts similar to modern stakeholder theory can be traced back to longstanding philosophical views about the nature of civil society itself and the relations between individuals. The word "stakeholder" in its current use first appeared in an internal memorandum at the Stanford Research Institute in 1963. Subsequently, a "plethora" of stakeholder definitions and theories were developed. In 1971, Hein Kroos and Klaus Schwab published the German book *Moderne Unternehmensführung im Maschinenbau* (*Modern Enterprise Management in Mechanical Engineering*) arguing that the management of a modern enterprise must serve not only shareholders but all stakeholder to achieve long-term growth and prosperity. The theory assumes that businesses can only be considered successful when they deliver value to the majority of their stakeholders. It also assumes that maximizing profits should not be the primary goal of the business. It also assumes that the business has many stakeholders other than shareholders. Once all the above are put into consideration, the theory assumes higher productivity through employee satisfaction, improved retention / referrals from happy customers, increased investment from happy financiers, improved talent acquisition from a positive image in the community.

Tony & Kerry (2020) propose that corporations should look beyond the shareholder theory of profit maximization, and take into consideration other stakeholder groups that the corporation is associated with, and who contribute to the company's achievements.

The purpose of a corporation or business in general is to create value for the stakeholders, who are comprised of the shareholders and the other defined groups affected by the organization. Freeman's stakeholder groups include shareholders, customers, suppliers, employees, communities, governments, trade organizations, political groups and financiers (Faucher, 2015). According to this theory, in order for a corporation to be successful and survive in the long-term, it must look to maximize its overall value for these various groups of stakeholders (Greenwood & Mir, 2018).

2.1.6 Measuring Financial Performance

Will Kenton (2021) defines financial performance as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period.

Performance measures could include traditional accounting measures such as sales growth, market share, and profitability. In addition, factors such as overall satisfaction and nonfinancial goals of the owners are also very important in evaluating performance, especially among SMEs. This is consistent with the view of Wanjoi (2008) that both financial and non-financial measures should be used to assess organizational performance. Panigrahi (2013) posits that one of the indicators used to determine the performance of an enterprise is its turnover/ sales volume. In this study, sales volume was used because the media houses sampled do not keep records of assets and liabilities in order to use other performance measures such as Return on Asset and or Return on Equity. However, it is worth noting that, the estimation of sales is usually a problem when no proper records are kept. Marfo-Yiadom and Agyei, (2011) and Nketsiah (2018) reported in a study of SMEs in Ghana that many SME managers gave figures from memory. The record keeping is generally poor and thus one can only rely on the recent memories of the traders to estimate the level of sales.

2.1.7 Board meetings and financial performance of SMEs

One aspect in relation with the board internal structure is board activity. One way to measure the board activity, is the number of board meetings. The meetings frequency can be a factor that helps to assess whether the board of directors is an active or a passive board. Board meetings must be held frequently enough to let the board get continuous reports concerning the firm's situation (Blanca, Iturralde, & Maseda et all 2012). The frequency of the board's meetings can offer information on the importance attributed to it, since the greater number of meetings, the more information is offered to the others and there are more issues to decide on the board. The meetings are the most usual occasion to discuss and exchange ideas in order to monitor managers (Conger, Fine gold, & Lawler, 1998). From this point of view, the more frequent the meetings, the more detailed the control of the managers, and the greater the shareholder wealth. Lipton and Lorsch (1992) suggest that the greater frequency of meetings is positively associated with performance. The board cannot be expected to monitor firm performance if they are not given the opportunity to do this (Michael et al, 2016).

Arora and Sharma (2016) examined the role of good corporate governance in India. The results show that the number of board meetings has a positive effect on ROA, while other variables have a negative effect. Implementation of good corporate in India is less proven to improve the company's financial performance. Wijaya and Zulaikha (2010) examined the role of board of commissioners' meetings and the role of committees within the company on financial performance. The results of the board of commissioners meeting represented by meetings of commissioners, shareholders' meetings, joint meetings between commissioners and shareholders proved to affect the financial performance of companies

Arosa et al. (2013) provided empirical evidence to the effect that board meetings have a positive association with financial performance. For instance, Ansong (2015) opined that greater frequency of meetings is positively associated with firm performance. In addition, Gill et al. (2012) studied the link between corporate governance and the growth of small business service firms in India. They found that the growth of small business service firms in India is positively associated with the number of board meetings. Some reasons offered for such findings are that the number of meetings can be considered as a measure of a board's effectiveness in carrying out the tasks of networking, advising and monitoring, and therefore influencing firm performance (Arosa et al., 2012).

2.1.8 Risk management and financial performance of SMEs

According to Gallati (2003), risk is defined as a condition in which there exists an exposure to adversity, or a condition in which there exists a possibility of deviation from a desired outcome that is expected or hoped for. Risk management is a process that identifies loss exposure faced by an organization and selects the most appropriate techniques for treating such exposures. Because the term" risk "is ambiguous and has different meanings, many risk managers use the term "loss exposure" to identify potential losses

Dahir (2013), studied the relationship between credit risk management practices employed by banks in Somalia, the study found out that risk averse bank managers who employ stringent risk policies, their branches were financially performing well compare to their counterparts whose risk policies were conducive.

Henschel (2006) conducted a study about risk management practices among German SMEs, the study found a positive relationship between risk management, and financial performance of SMEs. Once risk management is applied, threats, and opportunities are easily identified. Mitigating the former, helps to minimize costs, and maximize profits while the later can be exploited to generate more revenue hence all combined improve financial performance.

According to Smith & Watkins (2012), the importance of risk management is now escalated above issues such as long-term and short-term financing constrains. Proclaiming the existence of a risk management strategy is insufficient, enterprises need to actively engage in risk management practices to address the convergence of major risks as experienced in the current economic climate where the credit crisis risk, fluctuating commodity prices, increased government debt, rising unemployment and declining consumer spending are impacting individually and combined, on enterprises.

2.1.9 Laying of strategic plans and financial performance of SMEs

Andre Lavoie (2019) defines laying strategic plans as the process by which you set long term goals for an organization to achieve. When company-wide goals are set, steps must be taken to ensure that employees are informed not only as to what they should be working on, but also why. Strategic alignment is a mechanism by which an organization can visualize the relationship between its business processes and strategies. It enables organizational decision makers to collect meaningful insights based on their current processes Morrison et al (2011). Stange (2020) suggests four ways for proper alignment of goals with strategies, these include; clearly communicating company goals, linking individual goals to strategic organization objectives, collaborate on team, and individual goals, not forgetting the set goals. Byron (2020) agrees that laying of strategic plans helps to improve the business' returns by accelerating employee performance, expediting completion of organizational goals

2.1.10 Corporate Governance and Financial performance of Small and Medium Enterprises

Good corporate governance greatly impacts on the internal operations of a firm. The four main aspects on the internal operations include strategic direction, financial expectations, transparency issues and shareholder activism. These are discussed in turn. Strategic direction defines the firm's long term direction. Corporate governance requires the appointment of board members. Appointing the board must bring in right thinking individuals into the organization in order not to adversely affect the entrepreneurial direction of the firm. The appointment of right-thinking individuals in the firm will usually result in more attention being paid to innovation and R&D. Corporate governance is a management tool that is used to boost economic development (Corb, 2012).

Corporate governances have a direct influence on credit uptake given that higher corporate governances lead to decreased level of credit appetite from the resultant high cost of borrowing.

Higher Corporate governances also result in increased probability of default as borrowers will struggle to meet payment obligations under their loan facilities. Ultimately, the level of credit uptake and increased risk of default at different levels of corporate governance directly affects SMEs financial performance and overall profitability.

Traditionally, corporate governance has been associated with larger companies and the existence of the agency problem. Agency problem arises as a result of the relationships between shareholders and managers. It comes about when members of an organization have conflicts of interest within the firm. This is mainly due to the separation between ownership and control of the firm. It is tempting to believe that corporate governance would not apply to SMEs since the agency problems are less likely to exist. In many instances, SMEs are mainly made up of only the owner who is the sole proprietor and manager (Hart, 2015). Basically, SMEs tend to have a less pronounced separation of ownership and management than larger firms.

Some argue that because SMEs have few employees who are mostly relatives of the owner and thus no separation of 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. Because there is no agency problem, profit maximization, increasing net market value and minimizing cost are the common aims of the members. Members also disregard outcomes of organizational activities that will cause disagreement. They are rewarded directly and as such need no incentives to motivate them. Thus disagreement does not exist and hence no need for corporate governance to resolve them.

In spite of these arguments, there is a global concern for the application of corporate governance to SMEs. Wei, (2017) proposes that similar guidelines that apply to listed companies should also be applicable to SMEs. Jensen, (2013) gives an example of what should be looked at when trying to improve a governance structure. Efficient systems have six key elements. Effective governance systems are characterized by limited partnership agreements at the top level that prohibit headquarters from cross-subsidizing one division with the cash from another, high-equity ownership on the part of managers and board members, board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company, small boards of directors (of the operating companies), typically consisting of no more than eight people and CEOs who are typically the only insiders on the board.

In the same report, it was noted that the difficulties that SMEs experience can stem from several sources of their financial needs. For example, the domestic financial market may contain an incomplete range of financial products and services, the lack of appropriate financing mechanisms.

Ekpu, (2015) pointed out that the demand-side factors affecting the supply of bank loans to SMEs also manifests that the demand side generally reveal size effects in firm-bank matching. For example, larger banks tend to be attracted to larger, older, well-established and more financially secure SMEs, while smaller, relationship-driven banks are attracted to smaller informally opaque SMEs. Relationship-driven banks also tend to pay more attention to applicants that have pre-existing loan and deposit relationships with them. Dempsey et al, (2016), further notes that financial institutions are also more likely to demand collateral from young and inexperienced SME borrowers as they are known to be risky and have high failure rate. While smaller banks have longer and more exclusive personal relationships with SME borrowers, large multi-office banks tend to have more short-lived, less exclusive and distant relationships with their customers. Michelle & kolinsky, (2014) however note that financial institutions also determine loan disbursement amounts basing on factors such as the SME manager’s educational attainment, business experience, equity stake, personal wealth/guarantees as well as other factors such as information market failures and borrowers’ business confidence.

Commercial lending is a highly complex, fascinating, and potentially profitable part of a bank's total loan portfolio. Proper management of this asset requires a strong credit culture, sound loan administration, and highly trained and motivated lenders. Yet, commercial lenders are under pressures of increasing productivity requirements and intense competition while funds devoted to training efforts continue in short supply. Consequently, the risks of commercial lending grow as lenders are tempted to cut comers in the face of heavy workloads.

If loan officers are trained to recognize loan components and structure their loan facilities accordingly, productivity will be enhanced through increased efficiency amongst SMEs. A properly structured loan portfolio is to some extent self-policing, as maturities or payment schedules are set to correspond with anticipated events. Customers are better served because their loan facilities correspond with their needs. The opposite of a well-structured lending relationship occurs when a borrower has a number of different notes with different maturities representing different purposes and repayments. Because of the heavy servicing requirements, an exasperated lender eventually combines the notes into one note that is periodically renewed, often at pre-stated intermittent intervals. The self-policing nature of a well-structured loan is lost and risk is increased.

Corporate governance has been envisaged to be a cost center that affects profitability by many managers, (Silvestre 2016). However, Ashton, (2014) pointed out that there are those who advocate that the advantages of corporate governance should attract SMEs especially growing entrepreneurial firms to adopt it. Growing entrepreneurial firms are firms that have the growth and orientation to expand beyond their state of survival. The benefits of corporate governance to listed firms could apply to SMEs as well. In this case, the benefits that accrue from corporate governance practices further assist SMEs to grow rapidly. Entrepreneurial firms need access to resources for growth. They need inputs on business operations, good strategy and best practices in the industrial sector. These resources can be provided for through the presence of non-executive directors or external board members as in the case of listed firms, (Imade, 2019). Thus the existence of external board members could lead to better management decisions and help SMEs to attract better resources. Non-executive directors could also introduce creativity and innovation through opinions and suggestions during decision making. In the Japan Small Enterprise Agency, SMEs with very high growth rates use non-executive directors more actively than larger firms.

Also, as entrepreneurial firms grow, the need to introduce professional governmental practices and managers arises. This begins the process of separation between management and owners. However, agency problems will still exist between non-family professional managers and owners. The underlying fact is that these non-family professionals would have to be motivated with incentives in order to gain from their expertise. In addition, for best performance from managers, governance of business units must be clear and distinct. Accounting controls and internal audits will have to be put in place to help assess the performance of these managers. This merit has dire implications for the SMEs in Ghana which are run largely by less competent managerial staff, mostly the sole proprietor and family. Corporate governance makes room for the composition of a board which will include external directors not necessarily linked to the owner and thus induce more independent best practice methods of running the business and attaining profits. The possible tension here is that which may develop between the owner and board of directors (especially in sole proprietorships). In Ghana, as noted, one of the banes of SME development is poor managerial competencies, an SME with a corporate governance structure will better overcome these problems via the expertise and more stringent internal control measures introduced by the board members.

Also, it will free up the owner operator from operational duties as well as prevent disputes. The separation of management from control of the board mimics the division of the manager from the owner. A large listed entity faces the same issue when seeking to ensure that the managers are accountable to the owners. Often in closely-held companies, fallouts amongst the people involved revolve around misunderstandings between the managers and the owners or a failure to separate the two functions.

Corporate governance paves the way for possible future growth or a sale. Often businesses seeking new funds find that they have much work to do before confidently going to the market. It normally takes some time to be fully listed. It is within this period that corporate governance becomes crucial and the learning curve is steep. A consistent track record of good governance will greatly assist when that point comes. If SMEs infuse corporate governance structures at an early stage, they will gain experience and instill discipline in the management of the firm. This is important as external parties ensure sound management practices. Corporate governance allows firms to prepare for their pending initial public offering (IPO). For example, in Ghana, early introduction of corporate governance would prepare an SME well enough even before it gets listed under the provisional listing regime.

Corporate governance activities should not only be focused on shareholders, but on all the multiple stakeholders impacted by business behavior (Zhong, 2016). Stakeholders are the individuals and constituencies that contribute, either voluntarily or involuntarily, to a business wealth-creating capacity and activities, and who are therefore potential beneficiaries and/or risk bearers. Stakeholders also include groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, business actions (Khomba, 2012). Stakeholder groups are constantly expanding to include a wide range of parties impacted by business operations such as customers, employees, a host government, the media, local communities, suppliers, partners, activists, advocacy groups, NGOs, competitors, educational institutions, research institutes, and think tanks (Bateman, 2006).

Businesses with higher sustainability ratings are likely to outperform their counterparts (Fraser, et al, 2009) pointed out that recent studies and actual practice have shown that critical stakeholders, including customers, employees, and socially responsible investors, are actively looking to do business with socially responsible businesses (Fraser, 2009).

2.1.11. SME age and Financial Performance

The amount of time that a business has been in operation affects its financial perormance (Hui et al. 2013; Mann & Sager, 2007). Age of a business is associated with the firm's risk of failure, which implies that younger firms are at a higher risk of failure than older ones. Age could actually help firms become more efficient (Martins, Ligthelm & Wijk, 2003). Hall (1995) argues that older firms would have more time to learn about their costs, and so will have more accurate estimates of their costs. Hui et al. (2013) examines the impact of firm age and size on the relationship among organizational innovation, learning, and performance among Asian Food Manufacturing Companies. Using a sample of 168 food manufacturing companies, the regression analysis revealed that firm age and size are two moderators which control the relationship among organizational innovation, learning, and performance. The findings apparently demonstrate that age enables firms to develop organizational routines to be able to perform their activities with more efficiency and better performance.

2.1.12 Conclusion

In conclusion, the relevance of Corporate Governance cannot be over emphasized since it constitutes the organizational climate for the internal activities of a company. In Uganda, corporate governance can greatly assist the SME sector by infusing better management practices, stronger internal auditing and greater opportunities for growth. Corporate governance brings new strategic outlook through external independent directors; it enhances firms' corporate entrepreneurship and competitiveness. It is not a threat to value creation in entrepreneurial firms if the guidelines on corporate governance are properly applied. Hence it is important to have explicit obligations by firms on value creation.

Good governance mechanisms among SMEs are likely to result in boards exerting much needed pressure for improved performance by ensuring that the interests of the firms are served. In the case of an SME, 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 as well. Often businesses seeking new funds find that they have much work to do before confidently going to the market. A consistent track record of good governance will greatly assist when that point comes. We also argue that for SMEs in particular the role of other stakeholders must be well articulated through a bottom-up approach where, for example, unions' (in the case of workers) views are explicitly laid out in board meetings. It must be noted that good governance does not guarantee business success. However, poor governance could be symptomatic of a business failure. More importantly, lifting the confidence of existing owners and potential new ones is a valuable goal.

SECTION THREE

METHODOLOGY

3.0 Introduction

This section focuses on the approach that was used to collect data and analyze it. This chapter presents and discusses the research design used in the study, the area of study, study population, sampling procedures, sample size, sampling techniques, the data collection methods and instruments, the data quality control methods, data management and processing, data analysis, ethical consideration and the limitations of the study.

3.1 Research Design

The study was carried out using descriptive research design. According to Cooper and Schindler (2003) a descriptive study is concerned with finding out the what, where and how of a phenomenon. Kothari (2004) defined research design as a framework that shows how problems under investigation were solved. Descriptive survey designs will be used in preliminary and exploratory studies to allow researchers to gather information, summarize, present and interpret for the purpose of clarification. The choice of the descriptive survey research design is based on the fact that in this study, the researcher is interested in the state of affairs already existing in the field and no variable would be manipulated. The quantitative approach was used to analyze numeric data obtained through questionnaires.

3.2 Study Population

The study population consisted of 57 media houses (Radio, and stations) in Kampala District as obtained from Uganda Media Owners Association (UMOA 2019), and Kampala Capital City Authority (KCCA 2019).

Mugenda & Mugenda (2003) argues that if well chosen, samples of between 10% and 30% of a population can often give good reliability. In this study however, a convenient sample of 54 media houses was taken (using Krejcie &Morgan 1970); the proportionate stratification is to be used based on the stratum's share of the total population to come up with the sample in each stratum.

Table 3.3 Population of the Study

Media category	Population	Sample
Radio stations	32	30
TV stations	25	24
TOTAL	**57**	**54**

Source*: Uganda Media Owners Association *(UMOA2019)*

Table 3.4 Population distribution per media house

Strata	Average Population	Sample size
Board members	4	4
Top Management	5	5
Accountants	2	2
Cashiers	2	2
Total	**13**	**13**

3.5 Selecting techniques

Purposive sampling

Purposive sampling was to obtain data from a sample population. Because the researcher was specifically interested in respondents who had better knowledge, and understanding of the subject under study.

3.6 Data sources

The researcher used Primary data to conduct the investigation.

3.7 Primary sources

Primary data was obtained from the research made questionnaire. This were mainly from the respondents and were extracted from questionnaires.

3.8 Unit of inquiry: Board members, Top management, Accountants, and cashiers of media houses.

3.9 Unit of analysis: Media houses including TV stations, Radio stations, publishing houses, and Umbrella bodies of media houses.

3.10 Data Quality Control

Data Quality Control measures constituted of Validity and reliability methods;

3.11 Validity

Validity refers to how accurately a study answers the study question or the strength of the study conclusions. Validity refers to how the assessment tool actually measures the underlying interest. Validity requires several sources of evidence to build the case that the instrument measures what it is supposed to measure. The researcher ascertained the validity of the instruments by undertaking a literature search and use previously developed outcome measures. Content valid index (CVI) was computed and gauged using 0.7 threshold (Amin, 2005)

3.12 Reliability

Reliability essentially means consistency; the researcher ensured reliability by subjecting the self-administered questionnaires to the different groups that did not know one another at different intervals. The researcher confirmed the reliability of the research instruments since the responses obtained during the test of the questionnaire produced similar responses. Reliability is part of the assessment of validity because both variables are mutually beneficial. Cronbach Alpha Coefficient was used. The field results obtained 0.7+ coefficient affirming reliability of field results (Nunnally 1978)

3.13 Data Processing and analysis

The collected Data was fed into computer programs (using particularly the Statistical Package for Social Scientists (SPSS) version 24. The data was analyzed using both statistical and narrative methods such as using descriptive frequencies and percentages by means of a 5-point Likert scale ranging from 1 to 5 which were Strongly Disagree and strongly disagree respectively.

After collecting and cleaning the data it was entered in a computer using Statistical Package for Social Scientists (SPSS). Various statistical tests were run to analyze the data.

3.14 Data Presentation

The data collected in the research was edited, coded, classified on the basis of similarity and then tabulated. To permit quantitative analysis, data was converted into numerical codes representing attributes or measurement of variables. Descriptive statistics such as frequency distributions, percentages and frequency tables were used to summarize and relate variables obtained from the study.

3.15 Ethical Considerations

These reflect one's understanding of the regulations governing the research ethics through formal policies and right procedures in undertaking a research study that have been put into place. This study involved asking human questions. To ensure that the rights of the participants are not violated and to maintain good working relationship and credibility, the ethical issues were considered at three levels, thus; the planning level, during and after the study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and interpretation of findings of the study. It gives the sample characteristics which include the background information of the respondents with respect to gender, position of respondents, duration of operation in market, number of employees within your organization, estimated value of your total assets, number of branches and annual estimated Net Income. It also presents the inferential statistical results of the research according to the variables studied. The variables analyzed include; Risk management, laying of strategic plans, and Board meetings

The presentation was guided by the following research objectives; specifically, they were:

(i) To establish the relationship between risk management and the financial performance of SMEs in Kampala District.

(ii) To determine the relationship between board meetings and financial performance of SMEs in Kampala District.

(iii) To examine the relationship between laying of strategic plans and financial performance of SMEs in Kampala District.

4.2 Findings

The following research findings were obtained from the data collected.

4.3 Response Rate

The sample population was consisting of 54 media houses in Kampala district. Out of 702 questionnaires distributed to the respondents, 530 questionnaires were returned thus, a response rate of 75.5%. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Creswell (2009) also stipulates that the key to accurately arguing that those responding are similar to those not responding is a high response rate of 70 percent to 80 percent. This means that the response rate of 75.5% for this study was excellent and therefore enough for data analysis and interpretation as shown below.

4.4 Background characteristics

4.5 Gender

The results in the table 4.1 below shows the distribution for the gender of the respondents who participated in the study

Table 4.6 Gender

Gender		**Count**	**Valid Percent**	**Cumulative Percent**
	Male	309	58.2	58.2
Valid	Female	221	41.8	100.0
	Total	**530**	**100.0**	

It was noted that most of these respondents were male (58.2%) while the female comprised the lesser percentage (41.8%). The distribution could be explained by the simple fact that previously, the males were dominantly recruited and favored in media houses though that trend is currently changing due to women emancipation.

4.7 Position of respondents

The results in the table 4.2 below shows the positions of respondents who participated in the study

Table 4.7.1

Position	Count	Valid Percentage	Cumulative Percentage
Board member	39	7.5	7.5
Top Managers	204	38.4	45.9
Accountants	127	24	69.9
Cashiers	160	30.1	100
Total	530	**100.0**	

4.8 Period in existence

The results in the table 4.5 below show the period in number of years the media house has been in operation

Table 4.8.1 Period worked in the organization

	Period	Count	Valid Percent	Cumulative Percent
	1-5 yrs	3	5.5	5.5
	5-10 yrs	17	27.8	33.3
Valid	15-20 yrs	20	44.4	77.7
	Above 20 yrs	14	22.3	100.0
	Total	**54**	**100.0**	

It was found out that the age media house was predominantly between 15 to 20 years (44.4%), followed by those that have existed between 5 to 10 years (33.3%) and minority were those who had existed for between 1-5 years (5.5%). This can be attributed to the fact that there was a rampant increase in media houses especially FM radio stations in the early 2000s.

4.9 Number of Employees

The researcher sought to determine the number of employees working for the different SMEs to get the size of most of the SMEs in Kampala district. Analysis of findings indicated that 24.50% of the SMEs had between 1-20 employees. 27.81% of the SMEs had 21-40 employees, 17.88% of the organizations had 41-60 employees. 11.92% of the SMEs had 61-80 employees and 9.28% of the SMEs had between 81-100 employees. The remaining 8.61% indicated that their organizations had employees ranging from between 101 and above. The finding therefore implies that most of the SMEs in Kampala district have a number of employees ranging between 1- 100 as illustrated in the Table 4.9.1 below.

Table 4.9.1: Number of Employees

Number	Frequency	Percentage
1-20	14	27.8
21-40	17	33.3
41-60	9	16.7
61-80	6	11.0
81-100	5	9.25
101 and above	3	5.6
Total	**54**	**100**

Source: Research Findings

4.10 Branches

The researcher sought to find out the growth of the SMEs by trying to find out if they had other branches (sister media houses). Not all the companies had branches but majority of the companies had branches as indicated below.

Table 4.10.1Media houses with sister stations

Sister Media Houses		Count	Valid Percent	Cumulative Percent
	Yes	24	44.4	44.4
Valid	No	30	55.6	100.0
	Total	**54**	**100.0**	

4.11 Value of Assets

The researcher wanted to determine the value of assets of the companies/organizations where the respondents were working in the last five years.in the year 2014 majority of the companies were worth between Ugx 150,000,01-250,000,001. In the year 2013 majority of the companies 89% were worth above Ugx. 300,000,000. This indicates that majority of the companies had grown financially in the five years.

Source: Research Findings.

4.12 Estimated Net Income

The researcher sought to find out the net income of the companies within the last five years. In the year 2014 the net income of most of the media houses where the respondents were working had a net income of between Ugx 30,000,000 - Ugx. 50,000,000. But in the year 2013, an exponential growth rate was achieved where majority of the media houses' net worth was more than Ugx 70, 000,000. This also indicates financial growth in the media houses.

Source: Research Findings

4.13. Corporate Governance practices in the SMEs

4.13.1 Risk management

The researcher sought to find out if the organizations had risk management in place and if it is followed before any key decision is taken.

Figure 4.13.2: Risk Management

Source: Research Findings

The figure 4.6 above indicates that 84.77% of the SME, had risk management in place while 15.23% of did not have risk management.

4.13.3Frequency of Board meetings

The researcher wanted to find out how often the organizations hold board meetings in one financial year.

Table 4.13.4: Frequency of Board meetings

Number of times in a year	Frequency	Percentage
1-3	15	28.48
4-6	22	41.72

6-9	7	12.58
10 and above	9	17.22
Total	**54**	**100.0%**

Source: Research Findings

The researcher sought to find out how often the SMEs with board of management hold their meetings in one financial year. Majority of the entities held meetings 4-6 times a year (35.10%) followed by 1-3 meetings each financial year (28.48%). Organizations that held their board 10 times and above had a percentage of 17.22% and lastly followed by the organizations which held board meetings between 6-9 times which had a percentage of 12.58%. The analysis indicated that most of the SMEs held their boards between 1 to 6 times in one given year.

4.13.5. Laying of strategic plans

The researcher wanted to determine if SMEs align strategies with goals.

Table 4.13.6: Laying of strategic plans

Sub- committees	frequency	Percentage
Long term strategic plan	16	86.09
Communicating goals and objectives	4	35.10
Linking individual goals to strategic plan	256	94.04
Frequent review and evaluation of the strategies	17	31.13
organizational goals and objectives are in line with the strategic plan	6	32.45

Source: Research Findings

Most of the respondents indicated that their SMEs align strategies with goals. According to the analysis, 86.09% of the SMEs have a long-term strategic plan they follow. 94.04% link individual goals to strategic plan, 35.10 % had goals and objectives communicated to employees and 31.13% held frequent review and evaluation of the strategies while 32.45% had their goals and objectives linked to the strategic plan.

4.13.7 Relationship between Corporate Governance and Financial Performance

All the respondents appreciated the fact that corporate governance has an immense effect on the financial performance of the organization. The implications of Corporate Governance and financial performance outcomes are greatly looked at by Piesse (1999). Few researchers have researched on a direct link between Corporate Governance and financial performance. The researcher sought to find out how corporate governance affects organizational performance in particular the financial performance of the SMEs. In order to do that, a number of questions were fronted to the respondents who gave their responses on a scale of 1-5 where 1 represents to a very large extent and 5 very small extent. Table 4.5.3 below shows the mean and standard deviation of factors that were used by the researcher to show the relationship between Corporate Governance and financial performance. A mean of 1-3, shows that the factor in question has been adopted by the responding organizations to a low extent. A mean of 4-5, shows the factor in question has been adopted by the responding organizations to a large extent. These findings were supported by prior studies that report positive correlations between Corporate Governance and financial performance.

Table 4.13.8: Effects of Corporate Governance on Financial Performance

The Extent to which corporate governance affects Financial performance of the organization.	**Mean**	**Standard Deviation**
The existence of risk management enhances the financial performance of the entity.	4.33	1.692
The number of board meetings in a year affects the financial performance of an entity	3.40	0.497
Laying of strategic plans g strategies with goals has a significant impact on financial performance of the entity	4.57	0.630

Source: Research Findings

The findings indicated that 20% of the respondents disagreed, 40% agreed while 40% strongly agreed that there is a relationship between corporate governance and financial performance of organizations.

4.13.9 Inferential Statistics

This section presents a discussion of the results of inferential statistics. Correlation analysis was used to measure the strength of the relationship between the independent variables which are the relationship between number of board meetings, risk management, and Laying of strategic plans of the SMEs to their financial performance. Regression analysis established the relative significance of each of the variables on the financial performance of the SMEs.

4.13.10. Correlation Analysis

The Pearson product-moment correlation coefficient (or Pearson correlation coefficient) is a measure of the strength of a linear association between two variables and is denoted by r. The Pearson correlation coefficient, r, can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable. A value less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases.

Table 4.13.11: Correlation coefficient of financial performance.

	Risk management	Number of board meetings	Laying of strategic plans	Financial performance	
Risk management	1				
Number of board meetings	0.0135	1			
Laying of strategic plans g strategies with goals	0.1297	0.7914	1		
Age of an SME	0.7612	[illegible]	[illegible]	[illegible]	1

Financial performance	0.6913	0.8163	0.7568	1

Source: Research Findings

The study above shows that all the predictor variables were shown to have a positive association between them at a significant level of 0.05 and hence included in the analysis. There was strong positive relationship between risk management and size of the company, size of the company and number of board meetings, v size of the company, financial performance and risk management and financial performance and number of board meetings, financial performance and Laying of strategic plans meetings and lastly between financial performance and size of the company

4.13.12. Coefficient of Determination

The analysis below shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R square equals 0. 7685, that is, risk management, number of board meetings, Laying of strategic plans, and age of the SMEs contribute and to a greater extent (76.85%) on their financial performance.

Table 4.13.13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.5713[a]	.7685	.7681	.42127

Source: Research Findings

4.13.14. Regression Analysis

The regression output of most interest is the following table of coefficients and associated output:

Table 4.13.15: Regression Coefficients Results

Model	**Standardized Coefficients**			**Interaction Model**	
	Beta	T	Sig.	Beta	Sig.
(Constant)			0.000		0.000
Risk management	0.971	2.021	0.045	0.986	0.001
Number of Board meetings	0.739	1.157	0.210	0.518	0.114
Laying of strategic plans	0.835	1.194	0.234	0.777	0.057
Age of an SME	1.173	1.686	0.093	1.663	0.276
Risk Management x Age of an SME				0.268	0.000
Number of board meeting x Age of an SME				0.042	0.620

Laying strategic plans x Age of an SME				0.387	0.000

Source: Research Findings

From the Regression results in table below, the multiple linear regression models finally appear as: $Y = 2.254 + 0.971X_1 + 0.739X_2 + 0.835X_3 + 1.173X_5 + 0.42127$

The multiple linear regression model above indicates that all the independent variables have positive coefficients. The regression results reveal that there is a positive relationship between dependent variable (SME‟s financial performance) and independent variables (Risk management, number of board meetings, Laying of strategic plans and age of the SME).

Source: Research Findings

Predictors: (Risk management, number of board meetings, Laying of strategic plans, and age of the SME)

4.13.16. Dependent Variable: Financial performance

The F statistic is the regression mean square (MSR) divided by the residual mean square (MSE). Since the significance value of the F statistic is small (0.000 smaller than say 0.05) then the predictor variables which are Risk management, number of board meetings Laying of strategic plans, and age of the SME explain the variation in the dependent variable which is financial performance. Consequently, we accept the Hypothesis that all the population values for the regression coefficients are not 0.

Contrary, if the significance value of F was larger than 0.05 then the independent variables would not explain the variation in the dependent variable, and the null hypothesis that all the population values for the regression coefficients are 0 should have been accepted.

4.13.17. Interpretation of the Findings

According to the findings of the study, the ownership of SMEs was found to be dominated by male entrepreneurs of about 74% while the female owners constituted only to 26%. It further revealed that most SMEs studied had cases of risk management at 53%.

From the correlation analysis results, the study shows that all the predictor variables had a positive association between them at a significant level of 0.05. There is a strong positive correlation between risk management and size of the company denoted by correlation coefficient of 0.7612, size of the company and number of board meetings with correlation coefficient of 0.8321, Laying of strategic plans and size of the company with correlation coefficient of 0.7294, financial performance and risk management had correlation coefficient of 0.6913 and financial performance and number of board meetings correlation coefficient was 0.8163, financial performance and laying strategic plans with goals correlation coefficient was 0.7568 and lastly between financial performance and size of the company correlation coefficient 0.8679.

Coefficient of determination results that shows the percentage variation in the financial performance explained by the changes in the independent variables is indicated as 0. 7685, that is, Risk management, number of board meetings, Laying of strategic plans, and age of the SME determine the financial performance of SMEs up to 76.85%.The financial performance is however determined by other factors outside the model to a small extent of 23.15% Thus, the corporate governance variables included in the model determines SMEs' financial performance to a greater extent

The multiple linear regression model result shows that all the independent variables have positive coefficients. Thus, the regression result reveals that there is a positive relationship between SME's financial performance and independent variables in the model. From the findings, one unit change in risk management results in 0.971 units increase in firm's overall performance.

One unit increase in the number of board meetings results in 0.739 units increase in institutions financial performance. One unit change in laying of strategic plans results in 0.835unit increases in financial performance. One unit change in age of the SME results 1.173 unit increases in financial performance.

The t statistics helps in determining the relative importance of each variable in the model. As a guide regarding useful predictors, we look for t values well below -0.5 or above +0.5. In this case, the most important variable was number of board meetings, Risk management, laying of strategic plans, and age of the firm respectively.

The significance value of the F statistic is small (0.000 smaller than 0.05) then the predictors variables which are Risk management, number of board meetings, laying of strategic plans, and age of the SME explain the variation in the dependent variable which is financial performance. Consequently, we accept the Hypothesis that all the population values for the regression coefficients are not 0.

Age Effect Hierarchical multiple linear regression analysis was used to determine interaction. Frazier and Barron. (2004) and MacKinnon (2000) advocate the use of regression analysis in testing interaction effects. Frazier et al. (2004) define a moderator as a mechanism through which a predictor influences an outcome variable. In the context of this study, firm's age is moderating by virtue of their intervening effect on the relationship between financial management practices and performance of SMEs. Consequently, the study used hierarchical multiple linear regression analysis using the SPSS test for moderation. The results in Table 4 (Interaction model results for objective 2) indicate that firm's age significantly interact the association between financial management practices and performance (sales volume) of SMEs in Sekondi-Takoradi metropolis. The interaction model as a whole is significant {F (7,131) =18.857, p0.387, p=0.000), asset management practices (β= 0.333, p=0.000) and account receivable management practices (β= 0.268, p=0.000) make statistically significant contribution in explaining the relationship between FM practices and performance when firm's age is taken as moderating variable. This positive association between receivables management and SMEs performance when firm's age is taken as moderating variable implies that when businesses institute stringent credit policy which only offers credit to credit worthy customers, overtime it may reduce the level of creditors, thus ensuring that the business has available cash to run its activities which may lead to increased sales. This positive association between account receivable management practice and sales volume is consistent with the findings of Pedro and Pedro (2008). Additionally, the positive relationship between inventory management and performance of SMEs of Sekondi-Takoradi metropolis means that with time firms that employ efficient inventory management practices can reduce inventory to an optimal level which has positive effect on production and sales. Similarly, increasing the inventory conversion period could lead to a decrease in stock out costs of inventory which results in enhancing sales opportunities and consequently leads to good performance (Deloof, 2003). Additionally, frequently keeping too little inventories as a result of inefficient and careless management practices and procedures might also lead to the interruption of operation in manufacturing, increasing the possibility of sale loss and consequently lower the profitability of the firms (Panigrahi, 2013) Studies such as Panigrahi (2013), Dimitrios (2008), Singh (2008) and Deloof, 2003 confirms these results.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four and gives the conclusions based on the findings and results. Recommendations and areas for further studies have also been presented.

5.2 Summary

The study aimed at investigating the effect of corporate governance on the financial performance of SMEs in Kampala District, Uganda. Out of the 18 SMEs sampled, 84.77% of them had board of management due to the realization that it was a necessity to proper governance that will have an impact on the firm's financial and overall performance. Some SMEs however had not embraced the existence of board of management as a corporate governance practice. Majority of the SMEs had board meetings were held 4-6 times in any given year as indicated by the majority where the boards exist. The study also found that laying of strategic plans with affected the financial performance of the SME's positively as shown by a mean of 4.69; risk management practices to a very great extent as shown by a mean of 4.50.

On the correlation of the study variables, the study found that there was strong positive correlation coefficient between financial performance and Risk management, number of board meetings, laying of strategic plans, and age of the SME with the strongest of all being the age of the firm and the least being number of board meetings. In addition, the results of the coefficients further indicated that a unit change in Risk management, number of board meetings, laying of strategic plans, and age of the SME would affect financial performance of the SMEs in a positive and to a great extent. Of all the independent variables, age the SME affects most its financial performance by 1.173.

5.3 Conclusion

From the findings on the effects of corporate governance on the financial performance of SMEs in Kampala district, the study found that most SMEs have risk management practices in place and those that strongly follow it have a better financial performance. Most of the SMEs however, have board of management to ensure proper decision and control of the firms‟ affairs which has a strong positive correlation to the financial performance. It can also be concluded that the SMEs agree to the fact that there is need to need for board meetings to be frequently held in order give an SME direction so as to realize better financial performance through the decisions being made by the board.

Generally, it can also be concluded that the SMEs appreciate corporate governance practices and their role to enhance financial performance yet majority of have not been able to adopt the practices since most of them still consider the practices applicable to large and established companies. Those adopting the practices have not fully incorporated them citing their size, limited finances and rigid government regulations as their limitations.

Undoubtedly, advancing knowledge regarding the corporate governance–financial performance relationship of SMEs in Kampala district informs corporate governance policy guidelines and assists policy makers and business owners to improve transparency of governance systems of SMEs. To this end, the leadership of SMEs can be informed of possible combinations of governance mechanisms they can consider, within a specific industry context, to enhance organization financial performance. This paper provides important insights in this regard as it seeks to stimulate further research that will build theory and enhance understanding of how corporate governance mechanisms are associated with market valuation or financial performance of SMEs in small, open, developing economies.

5.4 Recommendation for Policy

From the discussions and conclusions in this chapter, the study recommends that the SMEs owners consider holding frequent board meetings in place since they directly influence and affect the financial performance of the SMEs. The boards need to comprise of well-experienced, and exposed people since they are actively involved in shaping SME’s strategy. Employees should be constantly reminded of the goals of the SME so as to develop strategies that are in line with the goals to be achieved.

Since it was clear from the study that the SMEs with a risk management practices in place had greater performance, the study recommends that risk management should be an integral part of the SMEs, and employees should hold risk management meetings whenever an activity is to be carried out.

Finally, the study also recommends that the SMEs should be well equipped to implement corporate governance practices in their daily activities to the levels acceptable in developing market economies so as to improve accessibility to firm financing and remain relevant in the competitive market. Good corporate governance has a positive economic impact on their overall financial performance over time as it saves the organizations from various losses such as those occasioned by fraud, corruption and similar irregularities. This can be done through corporate governance forums and trainings for SMEs managers and owners.

5.5 Limitations of the Study

The fact that the study was carried out during a tough period of the Covid-19 pandemic, the researcher faced a challenge of accessing respondents since most media houses did not freely allow visitors to access offices hence it took too long to collect data.

A limitation for the purpose of this research was regarded as a factor that was present and contributed to the researcher getting either inadequate information or responses or if otherwise the response given would have been totally different from what the researcher expected. The researcher also encountered the limitation of access to information sought by the study. Some respondents were not willing to be interviewed while others did not want to be identified.

The researcher encountered limitation of time as the research was being undertaken within a short period with limited time for doing a wider research. However, the researcher countered the limitation by carrying out the research across the SME's that were selected which enabled generalization of the study findings on the target population. The respondents approached were reluctant in giving information fearing that the information might be used to intimidate them or print a negative image about their firms. The researcher handled the problem by carrying an introduction letter from the University that assured the respondents that the information was to be treated with confidentiality and purely for academic purpose.

5.6 Recommendation for Further Studies

This study has reviewed the effects of corporate governance on the financial performance of the SMEs in Kampala district. To this end therefore, a further study should be carried out to establish how listed SMEs in the USE have been able to come up with various strategies, polices and systems to comply with a regulated business environment including the adoption of corporate governance practices.

More so, a study should also be carried out to establish the challenges SMEs face in trying to adopt corporate governance practices such as financing and size/age of the firm. The same study should be carried out in other financial sectors for example banks and microfinance institutions to find the comparison of the corporate governance practices and the extent in which they are applied in the various organizations as well as the challenges that these relatively large firms face in applying corporate governance practices.

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APPENDICES

APPENDIX I: SAMPLE RESEARCH *QUESTIONNAIRE* FOR CORPORATE GOVERNANANCE AND FINANCIAL PERFORMANCE OF SMEs

Dear Respondent

I am a student of **Makerere University Business School** Pursuing a Master of Business Administration. As a part of my programme, I am undertaking a research on “The effect of Corporate Governance and financial Performance of Small and Medium Enterprises. You have been identified as a key informant on this subject of study and kindly request you to complete the self-administered questionnaires. The information you provide will be kept with utmost confidentiality and be used for academic purposes only. I thank for your participation and cooperation. Your time and effort are sincerely appreciated.

SECTION A: GENERAL INFORMATION

Tick Where appropriate

ii. Gender: Female [ ] Male [ ]

ii. Position of the respondent:

A. Board Member [ ] **B**. CEO/MD [ ] **C**. Senior Management [ ] **D**. Supervisor [ ] Others (Specify)…………………………...….

2. Duration in Operation in Market (in years) 1-5 ( ) 5-10 ( ) 15-20 ( ) 20 and above ( )

4. What is the number of employees within your organization? 1-20 ( ) 21-40 ( ) 41-60 ( ) 61-80 ( ) 81-100 ( ) 101 and above ( )

5. Does your organization have sister stations? Yes [ ] No [ ]

If Yes, specify the number of sister stations……………………………………

6. What is the estimated value of your total assets in the last five years?

2014……………………………….

2015……………………………….

2016………………………………

2017……………………………….

2018……………………………….

7. What is your annual estimated Net Income over the last three years?

2014………………………………. 2017……………………………….

2015………………………………. 2018……………………………….

2016……………………………….

SECTION B: CORPORATE GOVERNANCE PRACTICES WITHIN YOUR ENTITY

1. In your organization, do you have risk management? Yes [ ] No [ ]

2. What is the size of your board of management? (Please mark below as appropriate)

2-5 [ ] 6-9 [ ] 10 and above [ ]

4. How often does your organization hold board meetings in one financial year? (Please mark below as appropriate)(**Only for top management**).

1-3 [ ] 4-6 [ ] 6-9 [ ] 10 and above (specify)…………………………………………………...

5. Do the following sub-committee exist in your organization?

I. Finance committee [ ] II. Audit committee [ ]

III. Human resource committee [ ] IV. Procurement committee [ ]

V. Any other, please specify………………………………………

6. How often do the sub-committees conduct meetings?

Every one month ( ) Every quarter ( ) Twice a year ( )

Others...

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices using the scale presented below

Key

1	*Strongly disagree*
2	*Disagree*
3	*Not sure/uncertain*
4	*Agree*
5	*Strongly Agree*

Risk management

1	Before taking actions, we plan for the risks involved	1	2	3	4	5
2.	We have been taught how to handle certain issues in the organization	1	2	3	4	5
3.	We follow clear processes and procedures whenever taking any activity	1	2	3	4	5
4.	We normally follow instructions from our superiors before accomplishing certain financial or administrative tasks	1	2	3	4	5
5.	We hold risk management meetings whenever an activity is to be carried out	1	2	3	4	5
6.	We all know how to assess risk	1	2	3	4	5
7.	We have clear parameters of what risk is in our organization	1	2	3	4	5

Board meetings

1.	Our board frequently meets to make decisions	1	2	3	4	5
2.	Our board gives clear guidance on sensitive matters in the enterprise	1	2	3	4	5
3.	Other than the pre-scheduled board meetings, our board meets in case of emergency situations	1	2	3	4	5

4.	Even without the board meeting, board members are updated about the events in the enterprise.	1	2	3	4	5
5.	The length of the Board Meetings is adequate to enable useful exchange of ideas	1	2	3	4	5
6.	Our board undertakes a formal and rigorous frequent evaluation of its own performance	1	2	3	4	5

Laying of strategic plans

1.	We have a long-term strategic plan we follow	1	2	3	4	5
2.	The organizational goals and objectives are in line with the strategic plan	1	2	3	4	5
3	The goals and objectives are constantly communicated to the employees	1	2	3	4	5
3.	Our individual goals are linked to the organizational strategic plan	1	2	3	4	5
4.	There is frequent review and evaluation of the strategies to align them with goals	1	2	3	4	5

SECTION C: CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF SMES A CASE STUDY OF SELECTED SMEs IN KAMPALA DISTRICT

Financial performance

1	The existence of risk management has resulted into an increase in our turnover.	1	2	3	4	5
2	Practicing risk management has resulted into an increase in our net profits	1	2	3	4	5
3	The size of our board is responsible for an increase in our turnover.	1	2	3	4	5

4	The size of our board is responsible for an increase in our net profits	1	2	3	4	5
5	Having regular board meetings has seen our enterprise grow in sales revenue	1	2	3	4	5
6	Holding regular board meetings has boosted our net profit figures	1	2	3	4	5

END