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Evaluation of Good Corporate Governance Practices in SMES in Zimbabwe Case of 3 Leather Products SMES in Bulawayo.

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Abstract

Zimbabwe is facing serious economic challenges which are resulting in the scaling down or closure of many companies. This situation has resulted in high unemployment rate of up to 85% (CSO, 2011). The government has encouraged people to start their own self-income generating projects (SMEs). The government established a fund which is accessed by people willing to start their own SMEs ventures. This incentive by government saw many people establishing SMEs. However, for the SMEs to succeed, they need to follow proper corporate governance practices to achieve their objectives. This paper seeks to evaluate the corporate governance practices being employed by SMEs in leather industry based in Bulawayo. The main objective is to evaluate the corporate governance practices of SMEs against seven characteristics of good corporate governance by Mack, (2010): clear strategy, effective risk management, discipline, fairness, transparency, social responsibility and self-evaluation. Descriptive survey, through the use of interviews and a questionnaire were used. A sample of 45 research participants was drawn from the 3 SMEs using judgmental sampling method. **D**ata analysis was done through descriptive statistic analysis model.

Keywords: evaluation, corporate governance practice, SMES

Introduction

Several writers and organisations have sought to define what actually a small and medium enterprise (SME) is. Various definitions have been proposed and are based on measures like number of employees, turnover levels, total net assets, capital base, legal structure and degree of formalization, (Hisrich et al, 2004). In Zimbabwe organisation like SEDCO and Ministry of SMEs have similarly tried to define small and medium enterprises. SEDCO (2010) has defined a small and medium enterprise as a firm that has not more than hundred employees and maximum annual sales turnover of US$830 000. Government of Zimbabwe (2000) through the Ministry of SMEs development defines a small enterprise as one that employs not more than 50 people and acting as a registered entity. Medium enterprises are firms employing up to 75 and 100 people. The major advantages of SMEs include their potential for innovation, flexibility, low start-up costs, rapid development and the distribution of risk. SMEs provide a solution to the employment problems facing Zimbabwe since the majority of the people are employed in this sector, (RBZ, 2009). This is due to the fact that large companies are closing down and others are downsizing their operations, (RBZ, 2009). The SMEs sector, if supported, will help resuscitate the economy by creating jobs, new products and services and new technology. The increasing numbers of school leavers and university graduates will be absorbed by the growing firms (Nyoni, 2004). This will also help to nurture the entrepreneurial spirit in the society.

Background to the Study

The contribution of Small and Medium Scale Enterprises (SMEs) to the broader process of economic development is increasingly being recognised worldwide (Nyoni, 2003). Zimbabwe, like many other African countries, the contribution of SMEs to the development of the economy has been recognised. The Zimbabwe ruling party ZANU (PF) in its 2013 election manifesto recognised the importance of starting and growing SMEs.
ZANU (PF) Manifesto, (2013)

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> "*In view of the central role of the youth in the implementation of the Indigenisation and People's Empowerment reform programme, Zanu PF has supported the establishment of a Youth Empowerment Fund to empower youths and women with innovative projects that have a community impact. The Fund, run through CABS approved US$6 million out of which US$4,901,788 has been disbursed to support 3,477 youth projects which have created 10,431, jobs at the rate of 3 jobs per project across the country. There has been stunted growth and sluggish development in the small and medium enterprises (SMEs) regardless of increasing targeted government assistance streamlined to benefit firms operating in this sector*."

This statement from the ruling party shows that SMEs are considered key to economic development.

The Mid Term Plan (MTP) of 29 July 2011, presented by then Minister of Finance Mr Tendai Biti contained 10 national priorities of which entrepreneurship development came fourth on the list, indicating the thrust in government policy in support of SMEs. The government of Zimbabwe identified entrepreneurship development as a major thrust to achieve economic development through SMEs growth and development. Further, the prioritization of the SMEs sector by government of Zimbabwe is echoed in almost every policy document.

Small to Medium Enterprises (SMEs) occupy a key and strategic role in revitalizing the economy (Kimura (2003). It is universally acknowledged that they are effective instruments of employment creation and economic growth, which ultimately lead to poverty alleviation for the entrepreneurs themselves as well as their employees. Their contribution will help turn the economic fortunes of the country and many will experience a better way of life. To fulfill their pole position in the economy, SMEs need to know critical factors that are the cornerstone of success in business (Kapoor et al (1997). One area of concern is how they manage its corporate governance.

Corporate Governance

According to Coyle, (2004) corporate governance refers to the management system s in which corporations are directed and controlled. Corporate governance has also been defined as "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may emanate from the bad behaviour of corporate management. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of corporations. Governance involves the alignment of interests among the stakeholders.

Good Corporate Governance

Good corporate governance is a relationship pattern between management with its stakeholders, management with board of commissioner and with members of management itself. This relationship is based on ethics, corporate culture and corporate value and supported by system, process, working procedures and organization in achieving maximum performance (Thomsen, 2005).

Recently the terms "governance" and "good governance" are being increasingly used in development literature. Bad governance is being increasingly regarded as one of the root causes of all evil within our societies. Major donors and international financial institutions are increasingly basing their aid and loans on the condition that

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reforms that ensure "good governance" are undertaken.

Since governance is the process of decision-making and the process by which decisions are implemented, an analysis of governance focuses on the formal and informal actors involved in decision-making and implementing the decisions made and the formal and informal structures that have been set in place to arrive at and implement the decision.

Government is one of the actors in governance. Other actors involved in governance vary depending on the level of government that is under discussion. In rural areas, for example, other actors may include influential land lords, associations of peasant farmers, cooperatives, NGOs, research institutes, religious leaders, finance institutions political parties, the military etc. The situation in urban areas is much more complex. Figure 1 provides the interconnections between actors involved in urban governance. At the national level, in addition to the above actors, media, lobbyists, international donors, multi-national corporations, etc. may play a role in decision-making or in influencing the decision-making process (Boehren and Oedgard, (2003).

To be effective, your company's leaders must take responsibility for their decisions and the performance of the organization as a whole. For example, the leaders of a company should design and adhere to a code of ethics that helps management promote each of the important characteristics of good corporate governance. Mack, (2010) identified seven characteristics of good corporate governance which include clear strategy, effective risk management, discipline, fairness, transparency, social responsibility and self evaluation.

Clear Strategy

Good corporate governance starts with a clear strategy for the organization. For example, a furniture company's management team might research the market to identify a profitable niche, create a product line to meet the needs of that target market and then advertise its wares with a marketing campaign that reaches those consumers directly. At each stage, knowing the overall strategy helps the company's workforce stay focused on the organizational mission: meeting the needs of the consumers in that target market (Mack 2010).

Effective Risk Management

Even if your company implements smart policies, competitors might steal your customers, unexpected disasters might cripple your operations and economy fluctuations might erode the buying capabilities of your target market. You can't avoid risk, so it's vital to implement effective strategic risk management. For example, a company's management might decide to diversify operations so the business can count on revenue from several different markets, rather than depend on just one (Mack 2010).

Discipline

Corporate policies are only as effective as their implementation. A company's management can spend years developing a strategy to push into new markets, but if it can't mobilize its workforce to implement the strategy, the initiative will fail. Good corporate governance requires having the discipline and commitment to implement policies, resolutions and strategies (Mack 2010).

Fairness

Fairness must always be a high priority for management. For example, managers must push their employees to be their best, but they should also recognize that a heavy workload can have negative long-term effects, such as low morale and high turnover. Companies also must be fair to their customers, both for ethical and public-relations reasons. Treating customers unfairly, whatever the short-term benefits, always hurts a company's long-term prospects (Mack 2010).

Transparency

According to Mack (2010) managers sometimes keep their own counsel, limiting the information that filters down to employees. But corporate transparency helps unify an organization: When employees understand management's strategies and are allowed to monitor the company's financial performance, they understand their roles

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within the company. Transparency is also important to the public, who tend not to trust secretive corporations.

Social Responsibility

Social responsibility at the corporate level is increasingly a topic of concern. Consumers expect companies to be good community members, for example, by initiating recycling efforts and reducing waste and pollution. Good corporate governance identifies ways to improve company practices and also promotes social good by reinvesting in the local community.

Self-Evaluation

Mistakes will be made, no matter how well you manage your company. The key is to perform regular self-evaluations to identify and mitigate brewing problems. Employee and customer surveys, for example, can supply vital feedback about the effectiveness of your current policies. Hiring outside consultants to analyze your operations also can help identify ways to improve your company's efficiency and performance.

Statement of the Problem

The economic and political problems which Zimbabwe experienced for more than a decade destroyed industrial activities in the country. This pushed unemployment rate to more than 85%, (CSO, 2011). With most companies closed, people had to find ways to survive hence they started self-help projects to generate income. Government through the Ministry of Small to Medium Enterprise Development came up with programmes to help these SMEs grow. However, most ventures continued to struggle despite the government support. Problems may be attributed to the ways SMEs are being run and hence reason which prompted the researchers to evaluate the corporate governance practices by the SMEs against the seven good corporate governance characteristics by Mack, (2000).

Research Objective

The objective of the research was to evaluate Zimbabwe SMEs corporate governance practices against seven corporate governance characteristics postulated by Mack, (2000).

Methodology

The questionnaire was the chief tool of gathering data. A total of 36 questionnaires (18 for customers and 18 for employees) were administered to employees and customers from the selected leathers SMEs in Bulawayo. The questionnaire comprised both open ended and closed questions. This was done to allow flexibility from respondents. It was felt that if a closed questionnaire were to be used in the collection of data it would limit the responses from the respondents. Thus the open-ended questions would open a new avenue that might have been over looked by the researcher. The questionnaires were administered over a period of two weeks in July 2014. The participants were selected using convenience sampling.

Interviews were carried out with 9 management staff (3 from each SME). The management staff was mainly the SMEs owners or managing directors. The researchers used pre-determined interview guide for consistency and uniform ity in questioning. Judgmental sampling technique was used to select the respondents.

Research Findings and Discussion

The research findings are based on the evaluation of corporate governance practices being employed by 3 leather SMEs in Bulawayo against seven characteristics postulated by Mack, (2000). The author highlighted that good corporate governance should be measured on clear strategy, effective risk management, discipline, fairness, transparency, social responsibility and self-evaluation.

Clear Strategy

The management staff from the 3 leather SMEs in Bulawayo was asked to show the researchers their short, medium and long-term strategic plans.

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Table 1- Strategic Plans

Strategic Plans	A	B	C
Short Term	None	Yes	None
Medium Term	None	Yes	None
Long Term	None	Yes	None

The results show that most SMEs operate without clear strategies as no SME was able to show the researchers its strategic plans. This means most SMEs operate without guidelines or standards on how to use their resources and capacities to maximize their growth. The management staff from the 3 SMEs alleges the economic conditions in the country are unpredictable and to difficult to come up with appropriate plans. This may mean that most of the SMEs are reactive in their approach.

Effective Risk Management

Table 2. Risk Management

Risk Management Attribute	A	B	C
Insurance Cover: • **Merchandise** • **Infrastructure** • **Staff**	 • **Yes** • **None** • **None**	 • **Yes** • **Yes** • **None**	 • **Yes** • **None** • **None**
Cash Handling: • **Secured Safe** • **Daily Bankings**	 • **None** • **At Times**	 • **None** • **Yes**	 • **None** • **At Time**
Security Guards	**None**	**Yes**	**None**
Credit Management	**None**	**None**	**None**

From the management staff interviewed, insurance cover on merchandise or goods for sale is common. However they do not insurance cover for their staff and only one confirmed of having infrastructure cover. They are likely to lose out in the invent of fire damage on their property.

Also another unhealthy situation is that none have secured safe and only confirmed of doing daily bankings. The means some they keep their money overnight and this is very risk. SME 'B' is the only which employs a guard.

From the results all the SMEs do not incur bad debts risk, they do not sale on credit, but cash basis.

Discipline

Management of SMEs 'B' which confirmed of having short, medium and long plans say they try to follow their plans of actions, though at times because of conditions on the ground, they will forced to do others outside planning. For the other two they do not have written policies and strategies.

Fairness

The employees of the SMEs were asked if they were satisfied with what they are being paid by SMEs owners

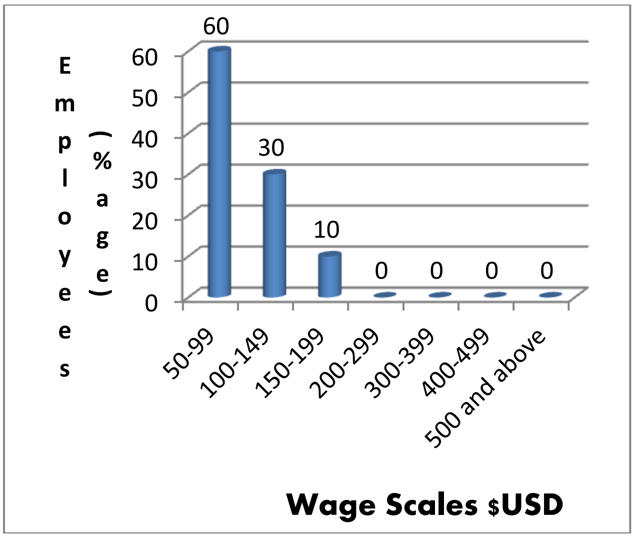

Figure 1: Wage Satisfaction

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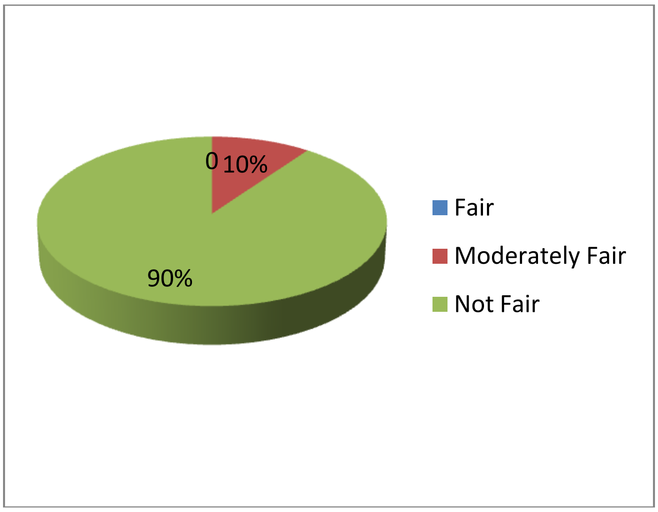
The results show that 60% of the employees earn less than $100 USD, 30% earn between $100 and $149 USD. According to CSO, (2012) monthly minimum wage for a family of 6 in Zimbabwe stands at $550. This means the wages paid by the SMEs are far below the expected rate therefore the wages paid are not fair. Also all the employees said the working hours are not defined as they do not have written employment contract. Some say, the work more than 12 hours a day and are not paid over time. They are also not given time off.



Customers (90%) complain that these SMEs sell their merchandise at a very high price and also that they do not have good customer care. They allege once a purchase is done and take the merchandise out, they do not accept it back when it is faulty. Also 90% highlighted that most of these SMEs sell sub standard products.

Transparency

100% of the employees according the results are not consulted; they are just given instructions on a daily basis by the management. Decision making is highly centralized in the management. Cash till is operated by a close relative of the owner. The employees say they do not know whether the SME is making profit or not. This is evidenced by none availability of basic financial records.

Transparency is sometimes seen through segregation of duties, not concentrating all key duties to one or few individuals. The results on this regard shows that procurement, receipt of money, banking, and payments are done by one person who is the owner or close relative.

Social Responsibility

The researchers asked the SMEs how they dispose their waste. None could give a clear answer. The researchers concluded that, these SMEs are the ones dumping waste in open spaces and nearby rivers thereby causing danger to eco-life. Also the three SMEs are not contributing towards community development projects.

Self-Evaluation

Since most of them do not have documented plans for their activities, it is very difficult to self evaluate themselves.

Conclusion and Recommendations

From the above discussion it is clear that good corporate governance is an ideal but it difficult to achieve in its totality. Very few SMEs have come close to achieving good corporate governance in its totality. From this research the researchers concludes that corporate governance practices in Zimbabwe especially among SMEs are in their infancy. From the results there is a need for Government through consultation to come with corporate governance framework which will guide SMEs activities.

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