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Corporate Governance: a Strategic Tool for SME Sustainability?

by

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Dedication

To my mother, Cecilia Ifeoma Dunkwu. Your love was limitless and unconditional. I will miss you for the rest of my life. May your beautiful soul continue to rest in peace.

Corporate Governance: a Strategic Tool for SME Sustainability?

- Jude Dunkwu

Abstract

The importance of corporate governance in SMEs is a result of SMEs being the backbone of a nation's economy. Approximately 99 per cent of all the businesses in developed Western economies are so classified. Instructively, based on findings reported in existing literature relating to the UK, half of SMEs fail in their first five years, hence the context relevance of corporate sustainability. Consequently, this research seeks to determine how corporate governance impacts on SMEs' sustainability as well as how owners and managers of SMEs relate to these concepts. A significant aspect of this study is the very limited availability of literature directly linking corporate governance in SMEs to the concept of corporate sustainability.

The limited existing literature make the issue of an appropriate methodological framework an imperative, hence the choice of grounded theory. It entails systematically deriving a theory directly from data. Data were collected from SME owners and managers by means of survey questionnaires, semi-structured interviews, focus group discussions as well as maintenance of a journal. Several levels of coding were carried out and analysed, some with the aid of SPSS and NVivo. In addition, the constructivist grounded theory traditions were employed in order to ensure that the process was sufficiently robust.

Among other findings, this study carried out in London, UK, found that a significant number of participants were of the view that corporate governance was not a priority for their businesses. Its conclusions were that the size of SMEs influenced their governance, and that

their owners and managers had limited understanding of corporate governance. In addition, the study found that sustainability was a fundamental goal of SMEs. It also found that the relationship between corporate governance and sustainability was not apparent to SMEs. An understanding of this relationship could have motivated SMEs in this study to enhance the practice of these principles.

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I give all the glory for the successful completion of this research to God Almighty who has shown me unimaginable mercies in this academic journey as well as in all my life.

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My wife, Cordelia and our lovely children: Angela, Peter, Augusta and Patrick, thanks for all your love and support. My moral compass, my Dad, Chief P. A. Dunkwu, this is for you and Mum. That journey that wasn’t completed in the 60’s, I have completed. How I wish Mum lived to witness this. On this occasion I specially celebrate her. I thank you both for the love, kindness and direction you have given the whole family. My sisters: Joy, Augusta, Theodora, Gillian, Ngozi and Anthonia, thanks for all your love, help and words of encouragement.

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Finally, I wish to acknowledge the sense of closure which the successful completion of this work offers me. In 1963, after completing his Masters degree and commencing his doctorate at Kings College, University of London, my Dad had to return back to Nigeria hurriedly with my mum and two elder sisters. His younger brother needed urgent support towards his education. Since I learnt of that experience as a young boy it left a gap in my mind. With the successful completion of my thesis I have a sense of closure now.

AUTHOR'S DECLARATION

At no time during the registration for the degree of Doctor of Philosophy has the author been registered for any other University award without prior agreement of the Doctoral College Quality Sub-Committee.

Work submitted for this research degree at the University of Plymouth has not formed part of any other degree either at the University of Plymouth or at another establishment.

During the course of the study, the following activities have been undertaken:

- Publication in 2016, entitled ‘Corporate Sustainability and Sustainable Development: Is the Difference Simply Semantics?’ World Journal of Social Sciences Vol. 6. No. 1. Pp. 132 – 142.

- Publication in 2016, entitled ‘Understanding Social Entrepreneurship: An Exploration of Theory and Practice’. World Journal of Social Sciences Vol. 6. No. 3. Pp. 86 – 99.

- Participation in British Academy of Management (BAM) Leeds conference 11 – 12 June 2018. I presented a paper entitled ‘Corporate governance: a strategic tool for sustaining SMEs’.

- Attendance at postgraduate research courses in research methods, grounded theory, triangulation of research methods, methods of data collection, philosophical perspectives on research, research methodologies, academic report writing, data analysis, use of SPSS, use of NVIVO.

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Part 1: Introduction

Chapter 1

Research Outline

1.0 Introduction and overview

During the researcher's childhood his family had a small family business which traded in consumer products from Nestle, Lever Brothers (now Unilever), Heineken and Guinness. A few of their family friends were equally involved in similar small ventures. At that time the researcher's perception of such businesses was that they constituted an activity that sustained the family. Such a perception must have been the result of age and exposure. In the UK today, the researcher has noticed the prevalence of such small businesses, but with a difference – there is more formal support from the government as well operating structures to aid such businesses. These formal support structures from the government and voluntary organisations as well as operating structures, such as means of payment, regulatory activities, reporting requirements and systems etc. provided the researcher with the first impression of the formal nature of SMEs. This was followed by reading of journalistic and academic works on SMEs.

During his literature search and reading the author realised how critical the SME sector was to the economy and wellbeing of society. Another thing that the researcher became aware of was the frequency of the demise of firms within the SME sector: this led the researcher to wonder whether governance could be a critical issue in this sector, particularly in view of the specific nature of ownership.

SMEs are highly visible in different forms, structures and industries. Their prevalence is such that every member of society participates directly or indirectly in their activities, which results in their criticality as vehicles of economic growth and enhancement for both individuals and the larger society (Gibb, 1993). The ability of such enterprises to endure therefore becomes a fundamental issue in terms of the way they are managed.

1.1 Setting the stage

The prevailing global economic conditions and efforts to resuscitate the economy have led to emphasis being placed (by governments and civil society) on SMEs. This is largely due to the prevalence of such firms in the polity and their potential to lift millions of people out of poverty and help in stabilising the global economy (Gibb, 1993). Despite this critical role of such firms a high percentage of them have an extremely short lifespan thereby raising a number of questions as to what gives rise to such a situation (OECD, 2007).

Corporate governance is principally about how to improve corporate accountability and responsibility. It remains sharply in focus owing to emerging financial scandals and major corporate collapse (Mallin, 2016). It has become a common term in the field of business and finance (Keasey *et al.*, 2005). Mallin (2016) defines corporate governance as the ways suppliers of finance to an organisation assure themselves of getting a return on their investment. Cadbury (1998) defined it as concerning itself with creating an expected balance between social and economic goals as well as between goals of individuals and those of the community. He further posits that the aim is to align, as closely as possible, the interests of individuals, corporations and society. Can one then summarise corporate governance as corporate accountability that ensures managers maintain focus on the communal objectives?

The empirical element of this research was carried out in London. The research sought to build on previous studies into corporate governance, and those previous studies have focused on certain key issues. Some scholars have examined corporate governance from the perspective of the organisation's management and the supply and control of finance (Keasey *et al*., 2005; Mallin, 2016). Another perspective has sought to examine the balance between the pursuit of an organisation's economic objectives and the need to balance them with broader social goals (Cadbury, 1998; Letza *et al*., 2008; Rodin, 2005). In addition, there are perspectives that have examined corporate governance from the viewpoint of an organisation's management and control (OECD, 2004; Nwanji and Howell, 2007a; The World Bank, 2013; Mulherin, 2004). Furthermore, certain perspectives on corporate governance have focused on the issue of accountability within an organisation being central to the proper management of the organisation (Keasey *et al*., 2005; Tricker, 1997; Kirkbride *et al*., 2005). This research sought to examine how these previous studies apply to SMEs and their quest for sustainability.

In a research study on family businesses in developing countries and corporate governance, Sarbah *et al*. (2016) highlight the significance of the business contributions of such organisations to a nation's gross domestic product (GDP). In so doing they note that some of the world's largest firms are family businesses and that the majority of SMEs in Ghana are family businesses. In the view of the researcher, what this indicates is that there is a degree of fluidity in the understanding of the meaning of family business and SMEs. It implies that large corporations could be family businesses but may not be SMEs and that some SMEs may be family businesses but may not be large corporations. Consequently, for the sake of clarity this research will focus on SMEs, not family businesses.

1.2 Problem statement

SMEs should adhere to the principles of corporate governance. This involves incorporating a set of mechanisms directing the process of collective action within a firm (Mulherin, 2004). This would serve as a means of putting in place structures, procedures and systems that could be fit for purpose in their firms. Such governance systems, if incorporated into the firms' strategies, would help to meet their objectives as well as responsibilities to stakeholders. It could help SMEs attain a state of sustainability such that they would be able to meet the needs of their firms as well as those of their stakeholders, for example their staff and management, investors, suppliers, environment, regulators and many others.

SMEs are an important phenomenon. They are very critical to the success of every society and economy (EC, 2004). An overwhelming percentage of firms in developed Western economies are so classified and they serve as good sources for the production of goods and services as well as providing means of employment. However, they are very fragile with many of them having a very short lifespan (Beaver, 2003). Many of these firms are either family-owned or the owner serves as the manager as well. They face challenges such as limited expertise, limited access to funds, short-term orientation in their approach, among others (Sashittal and Wilemon, 1996).

Sustainability in SMEs could be achieved by embracing the principles of corporate governance. This state of sustainability means that the firm must be equipped with the right strategies in terms of traditional business practices; it must be socially responsible as well as environmentally conscious. All of these have to be complimentary such that the long-term viability of the firm is enabled. Corporate governance principles require that practices that are fit for purpose are put in place (OECD, 2004; Ahmad and Omar, 2016). For instance, corporate governance practice, such as accountability in the management of a firm, aids it in multi-dimensional ways. It ensures that the entire system is developed in such a way that every player in the system must be able to account for its actions and every resource can be accounted for.

1.3 Rationale for the study

SMEs play a critical and strategic role in every society and economy. They are the largest providers of jobs and constitute 99 per cent of business in developed Western economies (EC, 2004; Gibb, 1994). SMEs possess huge export and innovation potential and are so important that they can stabilise the global economy (Acs *et al*., 1997; Gibb, *ibid*). Therefore, the researcher holds the view that any study aimed at understanding, developing, promoting or sustaining this phenomenon is equally important.

As critical and strategic as they are, SMEs are very vulnerable. They face challenges, such as availability of funds, issues relating to management styles and strategy, as well as setting and pursuing meaningful objectives (Beaver, 2003). Also, SMEs have been noted to lack certain skills that are critical to sustaining a business such as restricted ability to utilise information, and the short-term orientation of their owners, among others (Sashittal and Wilemon, 1996). As Anderson (2014) points out, over 50 per cent of SMEs do not survive beyond their fifth year. SMEs' importance as well as their vulnerability has resulted in governments taking measures and creating frameworks to help them (Karaev *et al*., 2007). Based on the strategic nature of these SMEs the researcher is of the view that conscious and concerted effort, including research, is needed in order to support them.

Corporate governance involves accountability such that managers are held accountable for their firms' performance, a systematic way for a firm to be directed and controlled (OECD, 2004). Other perspectives have described corporate governance as processes with oversight responsibilities, both formal and informal (Hambrick *et al*., 2008). What is important regarding this concept is that it aims to ensure that the firm is properly run. Consequently, besides external help for SMEs from governments and agencies the researcher considers that corporate governance could be a mechanism which could encourage SMEs to help themselves. As such the internal elements of SMEs may require 'straightening and strengthening' by embracing corporate governance principles.

The core objectives of every business include survival, value creation, cost minimisation and profit maximisation. These objectives are elements of the business-related aspect of corporate sustainability (Wikstrom, 2010; Dunkwu *et al*., 2016). According to HSD (1992 cited in Du Pisani, 2006) sustainability involves the adoption of business practices that satisfy a firm's needs as well as those of its stakeholders. Based on the foregoing, the researcher is therefore of the view that sustainability is a state which SMEs pursue and that corporate governance principles and practices are enablers that will assist SMEs in attaining these objectives. These corporate governance principles influence institutional processes, which impact on the production and sale of all kinds of goods and services (Ahmad and Omar, 2016). They also provide guidelines on the best ways in which the firm's assets could be utilised (Nwanji and Howell, 2005; 2007b).

This research stands to benefit scholars, businesses and policy-makers in a number of ways. In view of the limited literature this thesis will help bridge that gap. Material relating to SMEs (Ayyagari *et al*., 2007; Clarke and Klettner, 2009), corporate governance (Cadbury, 1998; World Bank, 2013), SMEs and corporate governance (Albrecht *et al*., 2004; Daily *et al*., 2003) as well as sustainability (Baumgartner and Ebner, 2010; Dyllick and Hockerts, 2002) were readily available. No material specifically addressed the issues of SMEs' sustainability and how corporate governance could be considered a strategy to attain that sustainability. Instructively, there is literature available on family-owned businesses. This form of business shares certain similarities with SMEs and there are differences as well. However, the researcher decided, for the purpose of this study to remain focused on SMEs only. Extending the research into family-owned businesses might have widened the scope of the research work, and thus the researcher believes that it may be more appropriate to undertake this in future research. The multi-disciplinary nature of the research topic naturally makes it broad, hence the researcher's sensitivity towards managing the limits of the scope of the research.

Major financial scandals and the collapse of major corporations brought the concept of corporate governance to the fore. In essence corporate governance was brought in so as to improve corporate accountability (Mallin, 2016). These experiences resulted in policies such as those recommended in the Cadbury Report (Cadbury, 1992). SMEs are noted to be highly vulnerable for a range of reasons (Karaev *et al*., 2007). Studies have previously been carried out to examine or demonstrate how SME structures align with models of corporate governance (Carson *et al*., 1995; Jensen and Meckling, 1976; Friedman, 1970). This study therefore seeks to examine how corporate governance issues and principles could help SMEs to achieve sustainability.

1.4 The aim and objectives of the study

In the course of searching for relevant literature it was noticed that available materials are largely focused on issues that are peripheral to the research topic, such as corporate governance, SMEs and sustainability. The researcher is of the opinion that this might have been due to the multi-disciplinary nature of this research. Consequently, an overarching aim of this study is to contribute to the body of literature relating to SMEs, corporate governance and sustainability. It aims to investigate the relationship between corporate governance and corporate sustainability by seeking to understand how corporate governance could facilitate corporate sustainability in SMEs.

Thus, this study set an objective of determining a methodology that would serve as an effective framework. Owing to the exploratory nature of the study as well as limited prior study, grounded theory was considered suitable as it provided a helpful guide to action (Strauss and Corbin, 1998). This enabled an approach to theory development that offered meaningful insight into the phenomenon being investigated through the data that were collected. The data from this framework needed to be comprehensible and conceptually wide in terms of interpretation (Howell, 2003).

Also, as a result of the limited prior study into the topic of this research obtaining meaningful empirical data was set as another important objective. In order to achieve this credible and effective data collection methods were triangulated. The questionnaire survey was conducted with effort made to ensure the validity and reliability of the instrument as well as the credibility of the outcome. A semi-structured interview was carried out and a focus group discussion was also held. In addition, a journal of events was also maintained.

The researcher hoped that on completion of this study data providing empirical evidence would have been obtained from SMEs in order to understand their views on a range of issues related to this research: their views on corporate governance in their firms and their understanding of sustainability, among others. This empirical evidence will, it is hoped, assist in answering the research questions as well as addressing the research topic: Corporate governance: a strategic tool for SMEs sustainability?

1.5 Research questions

Having reviewed some issues and literature in relation to SMEs, corporate governance and sustainability, the researcher decided on specific research questions that would shape this study (Thomas, 2013). This study largely involved exploratory research which sought to understand issues concerning SME owners' and managers' understanding in relation to SMEs governance and sustainability. Consequently, the research questions consisted of 'what' questions (Hendrick *et al.,* 1993; Yin, 2014). In addition to helping to address the research topic, the research questions were designed to assist in the development of propositions that might be pertinent in the event of further studies (Yin, *ibid*). This is important considering that the focus of this study, how corporate governance helps SMEs to achieve sustainability, appears to be largely unexplored. Consequently, the mixed-methods triangulation, as well as an exploratory approach to this research appeared likely to satisfy a key aim of this study: identification of an appropriate methodology to serve as the framework.

The “overarching central question” (Creswell, 2013 p. 138) that underpinned this research was ‘to what degree do SMEs appreciate the relevance of corporate governance?’ This enabled the researcher to interpret the findings regarding SMEs so as to provide insight into relevant issues in that sector (Thomas, 2013). Based on the literature which the researcher reviewed in this chapter, some additional questions were asked that intended to ‘stretch’ the central question into related areas of this inquiry (Wolcott, 2008). These were as follows;

i. What is the relevance of corporate governance to SMEs?
ii. What is SMEs’ understanding of sustainability?
iii. What is SMEs’ understanding of the relationship between corporate governance and sustainability?

1.6 Research methodology

The near-absence of existing literature on the topic of this research and the multi-disciplinary nature of the study required that an appropriate methodological approach was selected to underpin it. Consequently, grounded theory was selected. As Collis and Hussey (2003) argue, it is one of the methodologies appropriate for studying social realities such as business and management. The approach entails the systematic gathering and analysis of data from which a theory is derived (Charmaz, 1983). The data resulting from this research process should have conceptually wide interpretations (Howell, 2003). It is a continuous process of reformulation and development that allows data from different sources to contribute to the ongoing development of theory (Stillman, 2006).

There are variants of grounded theory in addition to the classic grounded theory version that focuses on quantitative and qualitative research (Glaser and Strauss, 1967). The Straussian grounded theory is focused on qualitative data (Strauss and Corbin, 1997), while the Glaserian grounded theory is not (Charmaz, 2006). The hybrid grounded theory approach embraces features of the Straussian and Glaserian approaches to varying degrees (Charmaz, *ibid*). And the constructionist grounded theory variant is underpinned by the assumption that data or theory are not discovered. Rather they are constructed or co-constructed through the interactions between the researcher and the participants (Bryant, 2002; Charmaz, 2006; Denzin and Lincoln, 2000). The researcher chose a hybrid version of grounded theory with a constructionist slant to underpin this research. This was based on the researcher's assumption that reality would be co-created by SMEs managers, owners and the researcher. Grounded theory would also provide a robust framework to guide the study.

Data were collected through a triangulation of semi-structured interviews, survey questionnaires, focus groups and diary entries. This offered insight into the contexts in which SMEs operate from multiple perspectives (Mills *et al*., 2006). This triangulation also helped the researcher in his effort to uncover meanings and enhanced his understanding (Merriam, 1988). The journal assisted in monitoring issues concerning the research (Yin, 2014); the semi-structured interviews provided an additional opportunity to ask questions that were not pre-arranged (Robinson, 2002).

1.7 An outline of the thesis

This introductory chapter sets out the key issues that form the basis of this research. It lays out the structure of this report in a way that connects the key sections inasmuch as each section could be read independently thereby enabling readers focus on different imperatives without losing sight of the 'larger picture.' Key concepts such as corporate governance, SMEs and sustainability are distinctly reviewed in an introductory manner so that the interplay between them can be reasonably understood. This includes the extent to which SMEs, due to their nature, consider the issue of corporate governance in developing their architecture and in the running of their activities.

The literature review is set out in two chapters to address the key issues of the research and its multi-disciplinary nature. The second chapter focuses on corporate governance and strategy in SMEs. It explores the meaning of a corporation sequel to exploring the concept of SMEs. It goes on to examine the issue of corporate governance as it pertains to SMEs and extends into models of corporate governance, corporate governance systems as well as corporate social responsibility (CSR).

Chapter three examines corporate sustainability as it relates to SMEs. Its background in sustainable development is explored leading to an effort to define what sustainability means in the context of this research. An examination of the relationship between corporate sustainability and sustainable development is carried out in order to set out the approaches to sustainability. This chapter concludes with a discussion regarding the strategies to achieve SME sustainability.

The theories of corporate governance are the main focus of the fourth chapter. The chapter provides a theoretical perspective on the issues raised in the research. SMEs are largely firms with governance issues more entwined than those of larger organisations. This results in situations in which top management, boards of directors and ownership overlap, involving the ame individuals, or people from the same family (Nordqvist and Merlin, 2002; Mustakallio *et al.*, 2002). This chapter explores the benefits of such composition, if any, and how it compares with publicly owned firms. It examines the agency theory which looks at a firm's extent of engagement in risky activities and the conflict between the divergent goals and objectives of principals and agents (Eisenhardt, 1989).

This chapter also explores the theory of shareholdership, which lays emphasis on the maximisation of the shareholders' wealth and the opposing theory of stakeholdership that seeks to consider the interests of parties affected by an organisation's activities or people who are affected by the decisions, policies, actions, practices or objectives of the organisation (Gibson, 2000). It concludes with an analysis of these competing theories.

The fifth chapter deals with the philosophical, axiological and ontological considerations of this research. In carrying out a research study it is necessary to have a clear understanding of the varying research paradigms. This includes the progressive scientific practice driven by people's philosophies and assumptions about the world (Collis and Hussey, 2003), within which various methods are situated. The main objective is to situate the research within the context of the most appropriate method.

Chapter six explores the methodology that was considered to be suitable for carrying out this research. Grounded theory methodology was considered appropriate. It is a process of collecting and analysing data. This is done systematically such that the resulting theory has a high chance of resembling reality (Strauss and Corbin, 1998). It also entails a continuous process of reformulation and development (Stillman, 2006). Its pros and cons are reviewed along with its use in management and organisational research, and its processes are outlined.

Chapter seven lays the ground for the analysis of the data that were collected. Among other things, it sets out some grounded-theory-building principles that would guide the process of theory development, presents the format of the questionnaire and addresses the issues of reliability and validity as well as the outcome of the survey.

Chapter eight presents the research design and data analysis. The process of theory-building using grounded theory is summarised and this is followed by an explanation of the format of the research questionnaire. The researcher explores the reliability and validity of the survey questionnaire using a range of techniques. A summary of the survey respondents and their background is presented in order to demonstrate how representative the research sample was. The data generated from the survey are analysed.

The ninth and tenth chapters present the data generated from the survey and semi-structured interview as well as the focus group discussion and the initial stages of theory development. The outcomes of the data collection processes are analysed with a view to setting out the substantive theory resulting from the research. Chapter eight of the report is based on open coding and chapter nine is based on axial and selective coding.

This last chapter, eleven, aims to synthesise the key observations, findings and analysis throughout this research and set out the substantive theory. It reviews the entire study with a view to determining its implications for theory and practice, and identifying the limitations of the research as well as suggesting areas where further research could be carried out.

1.8 Conclusion

This research is motivated by a combination of the researcher's experience and the imperative of sustaining SMEs due to their critical importance to the economy and the larger society. SMEs have the potential to create jobs, alleviate poverty and possibly transform a society. Despite their importance, research shows that SMEs are very vulnerable for a range of reasons, such as limited resources, short-term focus and limited information systems (OECD, 2000; Hogarth-Scott *et al*., 1996). This has led the researcher to seek ways that will be helpful in sustaining SMEs. Interestingly, the issue of sustainability has certain implications for, and gives rise to certain expectations in, the prevailing business environment.

Corporate governance is a concept that relates to the management of a firm in a manner that ensures that it is fit for purpose and addresses its stakeholders' needs and concerns. Consequently, besides the measures which are put in place by the government to support SMEs, corporate governance may constitute an internal self-help measure for SMEs. It may assist them in ensuring that the right structures and policies are in place, and that there is accountability and transparency in the system. Considering that the aim of every business is to survive, create value while minimising cost and maximising profit, corporate governance may be an effective strategy to enhance SMEs sustainability. This research set out important research questions that would drive it towards achieving its aim and objectives. These questions aided the researcher in exploring SMEs' perceptions of corporate governance, as well as their understanding of sustainability. It also aided the researcher in determining whether SMEs perceive any relationship between governance practices and their firms' sustainability.

Consistent with the views of Collis and Hussey (2003) that grounded theory is suitable as methodology for management and social research, grounded theory was considered as the framework for this research. The systematic and continuous gathering and analysis of data in order to derive theory as well as the theory's wide conceptual interpretation (Charmaz, 1983; Howell, 2003) resulted in the choice of grounded theory as the underpinning framework. As a result, a triangulation of semi-structured interview, survey questionnaires, focus group and diary entries were employed for data collection. This provided access to data gathered in multiple ways resulting in multiple perspectives on the phenomenon (Mills *et al*., 2006)

The next chapter will examine the literature relating to SMEs, corporate governance principles and theories, sustainability and strategy in SMEs.

Part 2: Literature Review

Chapter 2

SMEs: Issues of Corporate Governance and Strategy

2.0 Introduction

This chapter reviews relevant literature to explore the background and meaning of the concept of corporate governance by analysing the key terms, ‘corporation’ and ‘governance’. In analysing the term ‘corporation’, there is further exploration of small and medium enterprises (SMEs). This chapter goes on to highlight key developments in the area of corporate governance, and identify some key models of the concept: principal-agent; myopic market; executive power; stakeholder models.

Besides their traditional roles, organisations also appear to have certain expectations placed upon them, which is one of the issues related to the concept of corporate social responsibility (CSR). Different schools of thought have taken varying positions in their analysis of the concept, and these will be examined further in this chapter. The chapter will also examine corporate governance systems and initiatives and will explore the use of corporate governance as a tool for developing strategy. In addition, it will examine corporate governance’s applicability to the context of an SME as well as issues relating to sustaining SMEs.

2.1 Corporation: an overview

Governance research has largely focused on corporations. This is likely to have been the result of their immense market power (Zahra, 2014). Analysing the keywords that make up this subject, namely, ‘corporation’ and ‘governance’, offers a good foundation for understanding the concept. A corporation is a large business or company (Collins Dictionary, 2015), "a complex organisational form that coordinates the activities of a variety of interests," interacting with creditors, financial advisers, customers, suppliers and others (Mulherin, 2004, p.1). It is also viewed as "a nexus-of-contracts – a consensual ordering of relations generally to be governed by private ordering and not government regulation" (O'Kelley, 2006, p.756).

> A corporation is one of the many ways to organise business, money, and property. It is a legal form, an abstraction that gives incorporators rights and privileges they would not normally enjoy. The corporate form allows numerous investors to pool capital into one enterprise – the corporation – in exchange for ownership of shares. (Cray and Drutman, 2005, p.306)

Corporations, according to Quigley (2003, p.2), are more powerful than any institution, other than the government, and in some cases some corporations are more powerful than governments. He notes that they are "huge amoral behemoths, acting amorally to expand market share, to hire fewer and fewer people, and to accumulate capital." Mills (1959) appears to agree with this and notes that the economic dominance of corporations has also given them disproportionate political power. Drucker (1993), for his part, argues that the power which the large corporations have over their employees and consumers gives rise to social, political and economic issues and thus they should be run for the benefit of their shareholders, employees as well as the larger community.

Large transnational corporations are faced with rising expectations that they will become involved in a system of governance that performs functions that were formerly regarded as government duties (Scherer *et al*., 2006; Rasche *et al*., 2007). They combat corruption, promote peace and influence the politico-legal order thereby becoming political actors (Fort and Schipani, 2002; Ryan, 2000; Dunfee and Fort, 2003; Korten, 1995). This increased role necessitates that these corporations will be run properly.

> According to widely cited UNCTAD data, of 100 largest economies in the world, 51 are now global corporations, only 49 are countries. It is fair to say that these data are not only of statistical interest, but also of immense political relevance. (Maak, 2009, p.361)

Lodge and Wilson (2006) point out that as the global power relations shift, stakeholders across the world remind multinational companies (MNCs) that it is not satisfactory simply to pursue their own economic interests and behave in a law-abiding manner while at the same time aiming to increase their shareholders' value. This position highlights the broader expectations placed on MNCs and raises a question about what their actual focus should be. MNCs should take cognisance of, and assume political co-responsibility in the current connected world for, such matters as social and environmental justice, as well as human rights. Therefore corporations should proactively seek to contribute to positive social and environmental change instead of failing to protect human rights, aggravating poverty and polluting the environment (Scherer and Palazzo, 2007; Ulrich, 2008; Maak, 2009).

2.2 Small and medium enterprises (SMEs)

Business organisations exist in different forms and sizes: multinational corporations (MNCs), family-run businesses, SMEs, and their size is one of their characteristics, which is measured in a variety of ways (Joaquin and Khanna, 2001; Dalton *et al*., 1980; Calof, 1993). Small and medium-sized firms are the focus of this research because of their critical impact on the economy and society. They are different from larger firms in a variety of ways (Pompe and Bilderbeek, 2005; Biesenbroeck, 2005; Smith *et al*., 1986; Bhaskaran, 2006; Taymaz, 2005;

Acar *et al*., 2005). These differences are not limited to availability of funds, styles of management and objectives (Beaver, 2003).

SMEs possess the potential to raise millions of people to the middle class and stabilise the global economy. As a result of economic changes in society, political decision-makers show strong interest in entrepreneurs because of their ability to generate employment and drive the economic recovery (Gibb, 1994). In the event of natural disasters, economic downturn, wars and conflicts, SMEs pick up the pieces when the television cameras have gone. Ethical practices, such as ensuring environmental sustainability, protecting human rights and supporting social progress, resonate in this sector. SMEs constitute 99 per cent of all businesses in developed Western economies. They provide about half of the total employment and turnover, thereby constituting an important phenomenon. Consequently, government has to engage with them, for example, by creating schemes to support them (EC, 2003; 2004). By developing a favourable framework and conditions for economic growth, as well as promoting various instruments and measures for SME development, governmental policy at the macro level attempts to improve the competitiveness of national economies (Karaev *et al*., 2007).

Definitions of SMEs provided by relevant institutions that supervise or support SMEs in various countries are usually based on the number of their employees, 10 – 100 for small enterprises, and 100 to 500 for medium ones. Sometimes it is also combined with financial measures, such as annual turnover (below $10 million) or market capitalisation (Clarke and Klettner, 2009). Ayyagari *et al*. (2007, p.415), in their review of SME definitions across the world, note that:

> The definition of SME on the basis of a specific criterion is not uniform across countries. For instance, a specific country may define an SME to be an enterprise with less than 500 employees, while another country may define the cut-off to be 250 employees.

The UK's Institute of Directors (IOD) defines SMEs as organisations with fewer than 250 employees, while the Australian Bureau of Statistics (ABS) considers a small business to be an organisation employing 20 people and medium-sized organisations to be those employing between 20 and 200, these figures being on the small side relative to those used by other countries (Clarke and Klettner, 2009).

There are distinctive features of SMEs which constitute their strengths and also change as they grow and develop. Such features are SME's mobility and flexibility, centralised decision-making, and flat organisational hierarchy, which enable a flexible and quick response when required. SMEs possess substantial export and innovative potentials (Acs *et al*., 1997; Aiginger and Tichy, 1991). Also, as the owner and the manager tend to be the same person, they, as entrepreneurs are likely to be highly committed to their businesses, thus the goals of the organisation and those of the owner will be inclined to converge (Carson *et al*., 1995). On the other hand, they have their distinctive weaknesses with regard to internationalisation and marketing skills, a focus on short-term goals, and lack of information systems. The latter results in difficulties in acquiring information internally and externally, and a restricted ability on the part of the entrepreneur to utilise information, thereby making strategic planning difficult (Hogarth-Scott *et al*., 1996; Sashittal and Wilemon, 1996). In general SMEs lack sufficient resources (OECD, 2000).

The strengths and weaknesses of SMEs tend to be strongly related to the individual entrepreneur who represents a key factor in the organisation's success. This is particularly true of the early stages when the entrepreneur is considered to be more important than the organisation, and his or her basic skills determine the firm's functional emphasis (Penrose, 1959; Greiner, 1998). Small firms can be perceived as 'bundles of resources', like other types of organisation, but with one significant difference: in small firms the entrepreneur is usually the primary resource of which others are composed (Brush *et al*., 2001). To that extent three forms of skills and resources have been identified in organisations; core skills and resources necessary for operation and survival; slack skills and resources, which increase a firm's flexibility; and the ability to adapt to unexpected situations; therefore, are key success factors upon which its success relative to other organisations and its competitive advantage are based (Grunert and Ellegaard, 1992).

Superior competitive advantage of any organisation is based on possessing key resources (Fahy, 2000). From the perspective of acquiring resources, expert services are readily available to bridge the gaps arising from SMEs weaknesses. This enables further development and support of their strengths in areas such as efficient use of time; internationalisation of the firm; strategic planning; leveraging on its flexibility and speed for competitive advantage; commercialisation of innovation; interpretation and utilisation of external information (Penrose, 1958).

The size of a firm may determine its strategy. In addition, it may influence its export-related activities. However, there is no evidence of advantage emanating from either being small or large (Bilkey, 1987; Edmund and Sarkis, 1986; Ekanem, 2000; Moini, 1995). Others have argued, on the contrary, that there is no relationship between size and strategy (Francis and

Collins-Dodd, 2002; Leonidou and Katsikeas, 1996). However, Smith *et al*. (1986) are of the opinion that size plays a role in the success or failure of strategy. Size has also been noted to play a role in organisational design as larger firms integrate their operations over larger areas (regional or global) than small firms do (Dunning, 1992). Also, large firms are more structured and centralised, and tend to use more non-personal forms of control in decision-making (Ronen and Shenker, 1985). Furthermore, the size of a firm impacts on its market orientation (Pelham, 2000). In this regard mid-sized firms are noted to offer the greatest potential for increased performance in activities such as exporting (Ali and Swiercz, 1991). Size has also been seen to influence a firm's productivity, and small firms in their quest for growth have been reported to outgrow firms that are larger (Sleuwaegen and Goedhuys, 2002). However, in another study on industries in Africa, Biesenbroeck, (2005) noted that in some cases small firms experienced slower growth than large firms.

2.3 What is governance?

Governance is a key issue in the success of every organisation, small or large. In an effort to understand a range of issues related to organisations Alchian (1977) questions how organisational forms manage to survive. In response, the researcher notes that Mulherin (2004) opines that the parlance of 'corporate governance' provides the answer. Governance has long been equated with governing, while the innovation associated with the concept of governance is an important way of grasping collective decision-making. This is distinct from traditional concepts, like that of government (Mayntz, 2003). Rosenau and Czempiel (1992), in coining the terms 'governance without government' or 'governance beyond nation state', point out that it represents a broader process in the overall nature of decision-making. The term 'governance' is mostly used to indicate a new model of governing, different from the old hierarchical model in which state authority exerted sovereign control over people and groups (Mayntz, 2004).

Governance has been used for referring to, and conceptualising a wide variety of things: structural forms, institutions, actors, and practices inside and associated with recent empirical manifestations of the state, as well as adaptations to its external environment (Christou and Simpson, 2009; Pierre, 2000). It is "the continuous political process of setting explicit goals for society and intervening in it in order to achieve these goals" (Jachtenfuchs and Kohler-koch, 2004, p.99). While noting that "governance has become a pervasive form of political steering," Mayntz (2003, p.4) also argues that 'governance' has been conceived as a more encompassing and modern term compared to 'government'.

In the context of this research, Letza (2017, p. 185) argues that "governance arrangements are multi-fold but in essence are the arrangements established to ensure that corporate entities meet acceptable standards of ethical and professional conduct in their activities." The interesting question posed by Alchian (1977) regarding how organisational forms manage to survive appears very strategic with respect to SMEs, because of the high percentage of those with a short lifespan within the sector (OECD, 2007). As a result, this researcher is of the view that the issue of governance may be of significance to SMEs.

Governance is "the determination of the broad uses to which organisational resources will be deployed and the resolution of conflicts among the myriad participants in organisations" (Dalton *et al*., 2003, p.371). In the view of this researcher this is one of the areas in which governance and corporate governance share similarities. Government and governance could be viewed as the two opposite poles of a continuum along which the role of the state varies. This ranges from its direct intervention, whereby it maintains a society's values, to extensive societal autonomy. This autonomy involves self-organised and self-governing private and voluntary actors and networks (Hysing, 2009; Rhodes 1997; Jordan *et al*., 2005; Treib *et al*., 2007).

As Levy and Prakash (2003, p.132) point out, "MNCs are not always seeking the extension of supranational regimes to lower regulatory standards, indeed they sometimes seek to enhance domestic governments' capacities to establish stringent regulations." Therefore one can discern that businesses primarily seek environments that will facilitate their operations in a supportive way, which leads to the question of what other benefits apply. Businesses want to be able to attract funds from investors for expansion and growth. For investors to invest in any business, they need to be sure that it is financially healthy, in both the present and the future, and to have confidence in the way it is managed.

The collapse of major multinational organisations in the 1990s and early 2000s, for example, Enron, Parmalat, Barings Bank and Arthur Anderson, brought to prominence the issue of governance in corporations. This was because the range of issues noted to have contributed to these collapses, for example, lack of transparency, opportunistic behaviour of managers and lack of accountability, are corporate governance-related (Letza *et al*., 2008). These developments made corporate behaviour more open to scrutiny (Whysall, 2000; Kirkbride *et al*., 2005; Letza *et al*., *ibid*) and subject to democratic processes (Samuels, 2001). Mallin (2016) notes that the lack of effective corporate governance meant that such collapses were more likely to occur. The main objective of this concept, therefore, is the supervision and guidance of corporate behaviour pursuant to an enterprise's primary purpose of attaining prosperity through innovation (Rayman-Bacchus, 2003). Nwanji and Howell (2007a, p.2) also note that one of the aims of corporate governance is to ensure that boards of directors of organisations do their jobs properly. While these objectives could be delivered in different ways, governance has a core purpose in organisations of all sizes (Davis, 1999).

2.4 Corporate governance: a conceptual examination

Corporate governance has been defined in various ways that reflect the ideological views regarding their nature and purpose (Zahra, 2014). It is principally about how to improve corporate accountability, such that the managers are held responsible for the firm's performance. The concept will remain in sharp focus owing to emerging financial scandals and major corporate collapse. Over time it has become a common term in the field of business and finance (Keasey *et al*., 2005).

Mallin (2016) defines corporate governance as dealing with the ways that suppliers of finance to an organisation ensure that they will receive a return on their investment. This view is consistent with those of Letza *et al*. (2008) who add that corporate governance also relates to businesses in term of ensuring that they meet their social responsibilities while pursuing profit. The researcher is of the view that these perspectives on the meaning of corporate governance are relevant to SMEs, the focus of this research. Consistent with the view of Mallin (*ibid*), the researcher believes that owners of SMEs, who are its suppliers of finance, seek to ensure returns on their investments. This is pursued through their direct participation in the governance of their businesses. In addition, consistent with the views of Letza *et al.* (2008), SMEs seek to fulfil their social responsibilities. This includes creating jobs that lift people out of poverty (Gibb, 1994), consequently contributing to the wellbeing of the larger society.

Cadbury (1998) defines corporate governance as the effort to ensure a balance between social goals and economic goals, and between individual and communal goals. He further notes that the aim is to align, as closely as possible, the interests of individuals, corporations and society. The Organisation of Economic Co-operation and Development (OECD, 2004) opines that corporate governance is a systematic way of directing and controlling an organisation. The World Bank (2013, p.4) also provides its definition of the concept, noting that it refers to structures and processes by means of which an organisation's management is controlled. It goes on to note that it "concerns the relationships among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders". Can one therefore, consider corporate governance to mean corporate accountability, with managers being held responsible for the organisation's performance, thus ensuring that they maintain focus on the communal objectives?

The concept of contemporary corporate governance is broader as well as multi-disciplinary. It incorporates a range of organisational functions, which simultaneously include accounting, management, business law, finance, economics and business ethics (Ahmad and Omar, 2016). It is a set of mechanisms directing the process of collective action of a corporation. "Narrowly considered, corporate governance refers to internal organisational devices such as inside ownership and the board of directors" (Mulherin, 2004, p.1). It is a set of rules, systems and regulations in defence of the interests of the shareholders, using the firm's governance devices (Desender *et al*., 2013; Kumar and Zattoni, 2013; Short *et al*., 1999;

Johnson and Greening, 1999; Shleifer and Vishny, 1997). OECD (2004 p.11) defines corporate governance as:

> … a set of relationships between a company's management, its board, its shareholders and other stakeholders, providing the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

It refers to formal and informal structures, as well as processes with oversight functions and responsibilities in the corporate context (Hambrick *et al*., 2008; Allen, 2001), exercising authority over corporate entities (Tricker, 1997).

From the foregoing the researcher considers the definition of corporate governance provided by the World Bank (2013) to be his preferred definition. It is seemingly the broadest, touching on key issues relating to this research. It differs from many other definitions that appear focused on only one or two issues relating to corporate governance. It is significant as it touches on a number of key issues, such as the structure of the firm and relationships within it, and processes within the organisation as well as management control and accountability.

Corporate governance is fundamentally concerned with questions such as: What is a business for? In whose interest? How is it run? (Zahra, 2014; Elkington, 2001). While exploring the concept, Davis (1999, p.3) notes cautiously that there is no single definition or model of governance that is universally accepted, and that "governance may be seen as a process for reconciling the ambitions of the individual with the need to preserve and develop the 'common wealth' which binds through shared interest." Governance entails monitoring and overseeing the strategic direction, socioeconomic and cultural context, externalities and constituencies of an institution. It is concerned with the intrinsic nature, purpose, integrity and identity of an institution, with a primary focus on the entity's relevance, continuity and fiduciary aspects (Branston *et al*., 2006; Denis and McConnell, 2003).

Corporate governance encompasses influences affecting the institutional processes of an organisation, which may include appointing its controllers and regulators who may be involved in organising the production and sale of goods and services for all kinds of firms (Turnbull, 1997; Ahmad and Omar, 2016). For their part, Nwanji and Howell (2007a) argue that it also provides guidelines on the best way of utilising the organisation's assets in order to earn good returns for shareholders. Furthermore, they point out that it involves procedures and instruments used by the owners of the organisation and other stakeholders to monitor management decisions and processes. Corporate governance encompasses the outlining of various aspects to which an organisation could apply its resources, as well as the management of any conflict arising between various interested parties (Dalton *et al*., 2003). Corporate governance is summed up by Parum (2006) who defines it as a set of principles concerning the governance of companies and how these principles are communicated externally.

Decades of research has found corporate governance to be largely focused on control of executive self-interest and protection of the interests of the shareholders. However, this has been mainly applicable to organisations in which ownership and control are separated (Nwanji and Howell, 2007b). There is a wide understanding that corporate governance is a process comprising accountability to shareholders, supervision of managerial actions, and the setting of strategic direction (Tricker, 1997; Kirkbride *et al*., 2005). It is also considered to encompass issues relating to the relationship between owners, boards of directors, top management teams (TMTs) and chief executive officers (CEOs), as well as issues of executive remuneration at various levels (Monks and Minow, 2004; Tricker, 1996; Keasey *et* *al*., 2005). In view of the foregoing this study considers that the concept of corporate governance could be perceived to encompass three key issues: accountability, procedures and control, as the means managers use to achieve the objectives of an organisation's owners, as well as the ability to create a healthy balance between the goals of the owners, managers and other stakeholders.

Organisations, particularly private corporations, are now perceived to owe moral obligations to other interest groups beyond their legal owners. These could consist of employees, customers, suppliers, the community and the environment. The organisations are also perceived to possess a 'licence to operate,' enabling them to be 'good corporate citizens' (Rodin, 2005). Demb and Neubauer (1992, cited in Turnbull, 1997) define corporate governance as a process by which corporations are made responsive to the rights and wishes of the stakeholders.

In light of the debate, Nwanji and Howell (2008a) point out that corporate governance has revolved around whether shareholdership or stakeholdership is the most appropriate option for companies and society. They also highlight the point that stakeholder theory attempts to present alternatives for corporate governance that encompass, balance and cater for the range of interests associated with the organisation. All of these perspectives highlight the diverse perceptions of the concept of corporate governance. Furthermore, Nwanji and Howell (2007a, p.4) also point out that:

> The purpose for which corporations are established can be anything their owners choose. In the case of business organisations, subject only to what the law

> allows, the purpose for which they are created is to meet their owners' interests and objectives, which is profit.

They further posit that since the law allows the shareholders to start businesses with a view to making profits, it could be argued that corporate governance should aim to help the corporations' board of directors and management make better business decisions, which would enable the company to meet the shareholders' chosen aim of profit maximisation.

2.5 Models of corporate governance

Nwanji and Howell (2007b) identify four main models of corporate governance: the principal-agent or the finance model, which identifies the purpose of an organisation, in this case, the maximisation of profit for its shareholders since they bear the highest risk and are the owners of the firm (Manne, 1965); the myopic market model, which also focuses on maximising profit for shareholders but differs as a result of its concern for market values that are short-term (Charkham, 1989); the executive power model, which maximises corporate wealth but carries the inherent problem of potential abuse of executive powers (Hutton, 1995); and the stakeholder model, leading to maximisation of stakeholders' wealth without necessarily involving them (Blair, 1995).

2.5.1 The principal-agent model

The principal-agent model supposes that the maximisation of shareholders' profit is the main purpose of an organisation (Letza *et al*., 2011; Dalton *et al*., 1998). This is due to the fact that the shareholders own the business and bear a huge risk. In this context, Letza *et al*. (2008, p.

18), regard "the central problem of corporate governance as self-interested managerial behaviour in universal principal-agent relationship." Consequently, the corporate governance structure existing in a corporation has emerged from a continuous process of negotiations willingly entered into by its participants (Keasey *et al*., 1997; Sun *et al*., 2002). Nwanji and Howell (2007a, p.7) posit that this model starts from the position that "in the absence of explicit impediments, most obviously monopoly power or negative externalities, profits-maximising behaviour by firms is a sufficient condition for social welfare maximisation." They further argue that "the separation of ownership and control is important inasmuch as it may allow managers to deviate from shareholders' value – i.e. profit maximisation." They point out that the major difference between this model and the myopic model is the latter's focus on the short term.

In the context of this research the SME owners are the shareholders of their organisations. The principal-agent model is relevant to this study as it may explain the need to maximise the shareholders' profit (Letza *et al*., 2011). The SME is the context in which the owners are likely to be the main risk-bearers, or the sole risk-bearers in some cases, in their organisations which gives rise to the relevance of this model. However, the issue of managerial self-interest comes to the fore considering that in many cases SME owners run their businesses. Consequently, this research will seek to determine the extent to which this model reflects the nature of SMEs.

2.5.2 The myopic model

A key similarity the myopic model shares with the principal-agent model is the view that the maximisation of shareholders' wealth is a primary goal of a corporation (Letza *et al*., 2011). The proponents of this model perceive the principal-agent model to be short-term rather than long-term with regard to the creation of wealth for the shareholders (Freeman, 1984). They argue that the system encourages a strategy whereby management focus tends to concentrate on short-term company results as opposed to long-term values and the competitiveness of the business (Hayes and Abernathy, 1980). This is viewed as a major problem of the Anglo-American system of corporate governance (Ahmad and Omar, 2016).

The 'myopic' perception of this model refers to its focus on increased share price within the short term for the benefit of the shareholders. This is partly aimed at averting a hostile takeover of the organisation, which would put both the shareholders' and managers' interests at risk (Keasey *et al*., 1997). Though the myopic model is focused on maximisation of profit for the shareholders, the schools of thought critical of it nevertheless accept the principal-agent position of maximising the wellbeing of shareholders (Syke, 1994; Letza *et al*., 2011). However, they argue for a broadening of that maximisation. The proponents perceive reform originating from corporate governance as an opportunity for shareholders and managers to be able to share long-term performance goals (Letza and Sun, 2004).

With SMEs noted to have a short lifespan (OECD, 2007), it will be interesting to examine the relevance of the short-term focus of the myopic model of corporate governance to the SME sector. Could the short-term nature of the myopic model involve the adoption of strategies aimed at yielding short-term returns (Hayes and Abernathy, 1980), provide a pointer to some short-term solution for SME owners in view of the noted short lifespan of their business? This research will examine the extent to which the myopic model reflects the nature of SMEs and explore what lessons may be learnt.

2.5.3 The executive power model

The executive model of governance concentrates authority in the hands of the managers, with the main purpose of maximising the wealth of the firm (Hutton, 1995). However, it has resulted in friction within the system, and damage to the interests of the shareholders, as well as those of the larger society, owing to executive abuse (Hutton, *ibid*; Ardalan, 2007). The opponents of the model argue that such senior positions are often occupied by 'sit-tights' and may engender corruption within the system. However, proponents of the model argue that the election of non-executive directors and processes such as auditing could provide checks to prevent the abuse of the system (Sun *et al.*, 2002; Vinten, 1998). It therefore remains to be seen how these processes play out in practice.

The key issue relating to executive power abuse in this model relates to the remuneration of executives, whereby they award themselves excessive financial packages relative to the firm's average remuneration. The only means of restraining them then lies in the persons of the executives themselves (Nwanji and Howell, 2007a). In the opinion of Kay and Silberston (1995) independent remunerations committees tend to provide legitimacy for such actions instead of acting as a check, as originally intended. While rejecting the principal-agent model, Nwanji and Howell (*ibid,* p.27) note that "the supporters of this perspective are doubtful about this prescription, and that the key requirement is to make the management accountable to the shareholders." They argue that "they do not believe that the shareholders have either the incentive or the capacity to provide monitoring, and whether shareholder priority is an appropriate rule for the large corporation in any event."

The executive power model of corporate governance appears to reflect the power structure in SMEs. In most cases the owners of SMEs appear to act as the managers, thereby concentrating authority in one individual (Greiner, 1998). Another interesting issue in relation to the executive power model is the remuneration of the executives themselves, who in the context of this research, appear largely to be the owners of SMEs (Nwanji and Howell, 2007a). These issues of power structure and executive remuneration in the executive power model are partly what this study sets out to examine. It will determine the extent to which they are reflected in the SME sector.

2.5.4 The stakeholder model

The definition of the purpose of a corporation is the major concern of the stakeholder model. It suggests a broad perspective which will encompass the maximisation of shareholders' welfare and also offers a commitment to the welfare of associates of the corporation, who possess long-term interests (Evan and Freeman, 1993; Blair, 1995; Philips, 1997). The theory of the stakeholder model is distinct as it involves values and ethics in the management of the corporation. It goes beyond managing shareholders' wealth to catering for the interests and wellbeing of parties who can either promote or undermine the objectives of the corporation (Philips, 2003). These stakeholders are identified by Freeman (1984) as the suppliers, customers, employees and financiers of the firms, and the communities hosting them. Fig. 2.1 below reflects different forms of stakeholder.

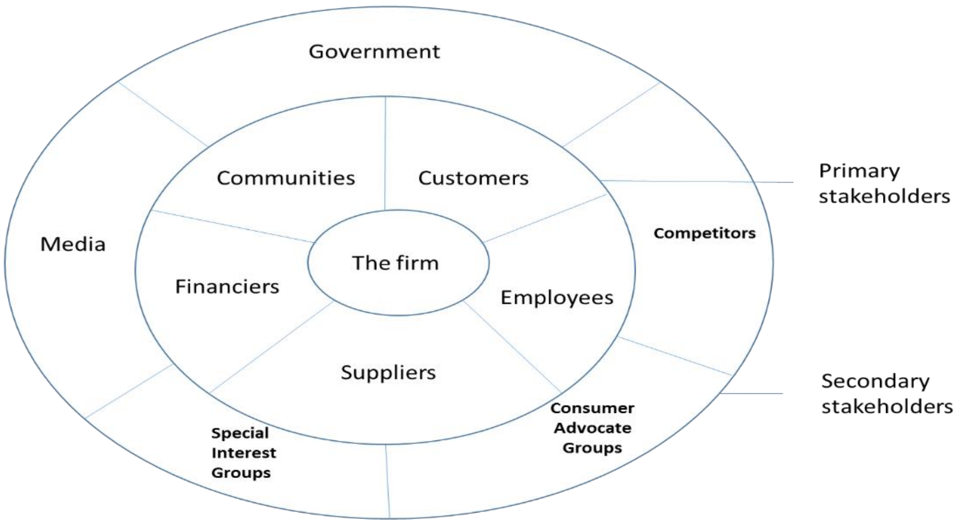

Fig. 2.1 Basic stakeholder map (Source: Freeman *et al*., 2007, p. 34)

As Clarkson (1995) points out, there are different stakeholders who have different proximities to the organisation as well as conflicting interests. The primary stakeholders are those that are closest, such as the employees, customers, suppliers, communities and financiers. Others, whose proximities are further away from the organisation and are classified as secondary stakeholders, are the government, competitors, special interest groups, such as environmentalists and ethical pressure groups, and consumer advocate groups (Freeman *et al*., 2007; Ahmad and Omar, 2016). While certain features of the stakeholder model are visible in SMEs, this research is not focused on issues relating to them. Consequently, the researcher notes that this model is discussed largely for normative purposes since it is a key model of corporate governance.

2.6 Corporate governance systems

Corporate decisions are influenced by a firm's corporate governance with an attendant impact on the wealth of a nation (Weimer and Pape, 1998). Corporate structures and governance arrangements vary among countries. As a result, different structures have resulted in different corporate governance systems in different countries. The shape which a corporate form takes in relation to corporate practices and laws is the outcome of the firms' structure of authority which could be organised in a number of ways (Branson, 2012).

'Network-oriented' and 'market-oriented' categories are two key categories of corporate governance systems (Moreland, 1995). The network-oriented category depicts governance systems as dominated by groups of oligarchs who influence the decisions of managers. This is usually through relationship networks that are stable, such as interlocking directorships or cross-shareholding. On the other hand, the market-oriented system is one that is largely driven by the market, and corporate control is driven by the active role of the market (Solomon, 2004).

Corporate governance systems are further divided into 'insider' and 'outsider' models in terms of firms' legal structures and arrangements for financing (Clarke, 2004; Weimer and Pape, 1998). A concentrated ownership and a small number of shareholders are key features of the insider model. In addition, its creditors offer it strong legal protection and the stakeholders tend to be capital markets that are relatively illiquid (Sheridan and Kendall, 1992; Nestor and Thompson, 2001). In corporations that are large and listed, banks play a more significant role than security markets as the principal source of finance. Consequently, key governance roles in the firm are played by a small number of dominant shareholders. As a result, agency problems are reduced due to the proximity of ownership and control, an issue inherent in the outsider model (Solomon, 2004).

According to the outsider model, managers direct the firm, while shareholders outside the firm largely own the equity capital, a model prevalent in Britain (Heinze, 2001) as well as the United States of America (O'Sullivan, 2000). Key features of this model are liquid capital markets, dispersed ownership and strong legal protection of investors. Based on these assumptions, managers appear to seek the maximisation of their self-interests and the firm is perceived as a nexus of contracts (Jensen and Meckling, 1976). In order to align the interests of the management with those of the shareholders, a board of directors is established. An innovative scheme to remunerate the management and curtail the potential excesses of its managers through a rigorous system of internal control is established (Denis, 2001).

From the foregoing SMEs are more likely to reflect the insider model of corporate governance which involves concentrated ownership and a small number of shareholders. In the view of Dunning (1992) a firm's size plays a role in its design. This implies that the small-scale nature of SMEs is likely to determine their structures. Furthermore, a study carried out by Carson *et al*. (1995) shows that in a typical SME the owner and manager tend to be the same person. The implication of this is that the shareholdership in an SME is likely to involve the entrepreneurs who founded it. Consequently, the researcher is of the view that as a result of the size of SMEs as well as their ownership structure, SMEs are likely to reflect the insider model.

The distinction between the shareholder and stakeholder perspectives drives the categorisation of corporate governance (Friedman and Miles, 2002). The obligation of firms and behavioural objectives serve as distinguishing factors in this categorisation. Consequently, there is a varied understanding of corporate governance systems across various institutional environments from the continental European and Asian system and the Anglo-Saxon model (Fernando, 2009; Shleifer and Vishny, 1997). Four systems of corporate governance have been identified by Weimer and Pape (1998), namely, that of the Germanic countries consisting of Germany, the Netherlands, Sweden, Switzerland, Austria, Finland, Denmark and Norway); Anglo-Saxon countries made up of the UK, U.S.A and Australia and Canada; Latin countries comprising Italy, Spain, France and Belgium; and the final class made up of Japan. The Anglo-American model focuses on primacy of ownership as well as property rights. On their part the continental European and Asian model places more attention on satisfying societal expectations (Fernando, 2009). Importantly, key differences between corporate governance systems have been identified as: relative concentration of ownership; the existence of an active market that exerts corporate control; a stock exchange's relevance; whether the board system is one or two-tier; the degree of influence exerted by any specific stakeholder groups; the types of relationship encouraged by the institutional environment; and the perception of the concept of the firm (Bradley *et al*., 1999; Weimer and Pape, *ibid*).

2.6.1 The continental European and Asian (German – Japanese) model

Most countries in continental Europe: France, Germany, Italy, and the Scandinavian countries have adopted this model of corporate governance. There are two major systems involved in the continental European and Asian models: the Asian (Japanese) system and the European (German) system. Most countries that adopt this model also follow the civil law system. This model is viewed as an alternative to the Anglo-American model. It arose from the French civil code of 1804, otherwise referred to as Code Napoleon in 1807 and went on to influence the development of the German code (Borisova *et al*., 2008). Societies have adopted these codes and statutes as a prescription for the regulation of corporations. Consequently, judges simply apply the codes rather than express any opinion on them.

There is no real separation of ownership and control of firms under this system in which the shareholders are dominant (Desender *et al*., 2013). This is a result of the shareholdership being concentrated as well as stakeholders being represented on the board. The state usually holds a controlling interest in many firms of which the financial sector is the most significant. Consequently, the economy is directed by the state through policies and regulation in ways that provide directors with the required independence to monitor the performance of managers properly (Clarke and dela Rama, 2008).

Shareholders and stakeholders are represented and also participate in the process of decision-making in the German corporate governance model (Monks and Minow, 2004). This is enabled by the German models' two-tier system of corporate governance whereby two independent boards are assigned supervisory and management responsibilities. This approach was incorporated formally in the company law of 1870 (Fohlin, 2005). The supervisory board has oversight responsibilities for the directors and supervises the firm's affairs. It has provides for employees' representation and the firm seeks to balance the interests of its key stakeholders through this mechanism (Solomon, 2004). The German model is more consistent with the stakeholder model and the insider model (Tricker, 1997; Scott, 1997). Its managers are less autonomous as the boards are more accountable to bank employees, large owners and the local community (Monks and Minow, 2004; Vitols *et al*., 1997). Furthermore, the German model focuses on employees; the stock market is less involved; and shareholders are viewed as stakeholders whose interests are catered for in the course of the firm's decision-making (Monks and Minow, *ibid*).

In the Japanese model of corporate governance, the board structure, participation of employees, legal system and monitoring mechanism tend to mirror that of continental Europe. This includes the legal system being influenced by the German civil code. The model is driven by concentrated ownership, largely consisting of banks and it is stakeholder-oriented (Tricker, 1997); however, the ownership is more dispersed. Central to the governance system are the office of representative directors, the board of directors, as well as the office of directors (Hopt and Leyens, 2004). Similar to the German model, the stock market also plays a diminished role in the financing of the business, while the government protects some industries and oligopolies, imposing certain barriers for foreign businesses. A centre piece of this model is economic commitment that is long-term and stable (Clarke and dela Rama, 2007).

2.6.2 The Anglo-American model

The Anglo-American model of corporate governance embodies the concept of separation of ownership and control (Fama and Jensen, 1983). This model perceives the firm as a tool for creating shareholders' value or consisting of managerial directors who act for the shareholders' benefit (Weimer and Pape, 1998). When firms grow, they gain substantial economic power, with an increased number of shareholders who hold smaller ownership stakes. This evolving ratio of owners and managers, which results in dispersed shareholders, brings about a separation of ownership (shareholders) and control (management) (Bearle and Means, 1932). Agency problems often arise as a result of this separation. Such issues and their resolution are the focus of corporate governance in the U.S.A. It has been argued that an efficient market could serve to reduce agency costs as well as reducing issues relating to conflict of interest (Fama, 1980). Alternatively, Jensen and Meckling (1976) are of the view that an efficient contract would serve the same purpose. Interestingly, countries with this model of corporate governance operate a common law system attuned towards protecting the shareholders. Such countries have evident regulatory and legal frameworks that influence the decision-making of managers.

The Anglo-American model is a market-oriented system, with corporate control that is driven by an external market that is active (Weimer and Pape, 1998). In this model, the managers and boards of directors are perceived as focused on creating wealth for the shareholders. This is a result of the financial and capital market-oriented nature of the model (Fisher and Lovell, 2003). Shares in companies are dispersed among a large number of shareholders, hence there is a low concentration of ownership (Roe, 2003). There is a single-tier governance board under this model, which assigns executive duties as well as monitoring responsibilities of a one-tier board. This board consists of executive and non-executive members (Hopt and Leyens, 2004). According to this model managers appear focused on short-term objectives due to executive compensation being tied to performance. Government, for its part, creates an effective environment that enables competition.

The continental European and Asian model of corporate governance reflects the prevalent governance system in a particular geo-political area. Coincidentally, this research was carried out in London which falls within the European region. The small-scale nature of SMEs and the resultant concentration of power within them (Carson *et al*., 1995) suggest that SMEs are likely to reflect the continental European and Asian models of corporate governance. This is based on the fact that the ownership and control of the firms are not separated and the shareholder is dominant (Desender *et al*., 2013). Furthermore, the state directs the economy through policies and regulations (Clarke and dela Rama, 2008).

2.7 Corporate governance initiatives

A number of initiatives to support the governance of firms have been introduced over time. As a result of the focus on corporate governance being on the rise following the major corporate scandals and collapse (Mallin, 2016). Although these initiatives do not appear to focus on SMEs, some of their outcomes, which the researcher will identify in the course of the literature review, may be relevant to SMEs. The Cadbury Report (Cadbury, 1992) in the UK, for instance, highlights corporate governance as an international issue. The scandals and the resulting issues have led to several initiatives to manage governance-related issues in organisations. Some such initiatives have arisen from places such as the UK following such scandals as those of Barings Bank, Bank of Credit and Commerce International. There were similar issues in the U.S.A. where firms such as Arthur Anderson and Enron collapsed in 2001 resulting in the Higgs' Committee Report (2003).

2.7.1 Globalisation, Europeanisation and corporate governance

Social relationships that link distant localities with the result that local events are influenced by incidents taking place in distant places and vice versa. Their intensification is often referred to as 'globalisation'. It could be argued this is business's response to universalism in which there is a normalisation of various industrial activities and services. This normalisation that a common base of values and norms are created (Giddens, 1999). On the other hand, Europeanisation is defined by Radaelli (2003, p. 30) as

> the processes of (a) construction, (b) diffusion and (c) institutionalisation of formal and informal rules, procedures, policy paradigms, styles, 'ways of doing things' and shared beliefs and norms which are first defined and consolidated in the making of EU decisions and then incorporated in the logic of domestic discourse, identities, political structures and public policies.

Globalisation and Europeanisation are complex phenomena which are discussed in a large body of literature. In addition, they are multi-dimensional (Howell, 2004; Radaelli, 2007; Giulani, 2003).

Available literature refers to change resulting from Europeanisation is domestic and results from the integration process of Europe's economy (Howell, 2009; Vink, 2003). Legislative initiatives have resulted from this integration of economy in Europe which has impacted on corporate governance practices in European countries (Howell, 2004; Geotz and Hix, 2001). The European Union (EU) is a political and economic region consisting of 28 nations situated in Europe, promotes Western liberal democracy and also facilitates globalisation (Ladi, 2007). There is also mediation between state and globalisation which permits reaction to globalisation pressures in ways that are selective (Howell, *ibid*; Wallace, 2000). Instructively, the EU policy priorities are implemented by international actors such as the International Monetary Fund (IMF) and the World Bank (Deacon *et al*., 1997). The EU's approach is global, negotiating with entities such as the U.S.A., private actors, such as the International Accounting Standards Board (IASB) and other non-state actors. It sets governance standards which are promoted by organisations such as the Organisation for Economic Co-operation and Development (OECD) (Muller, 2004; Manning, 2004).

2.7.1.1 The principles of the OECD

Corporate governance standards are perceived by the OECD to be critical to the promotion of economic growth that is sustainable. In their view, it is also important in restoring the confidence of investors (Reddy, 2001). However, Solomon (2004) consider that corporate governance lacks legislative power and consequently has no bite. In different countries these principles are either not applicable or are unenforceable. This is as a result of each country's regulation of corporate governance as well as its culture.

A broad framework of corporate governance was developed by the OECD as guidance to help member states develop their individual best practice guidelines for corporate governance (OECD, 2007; Monk and Minow, 2004). This framework was revised in 2004 and provides guidance on the protection of shareholders' rights and stakeholders interests. It laid out six key principles: shareholders' rights and major ownership duties; stakeholders' role in corporate governance; treatment of all shareholders in a manner that is equitable; transparency and disclosure; the board of directors' responsibilities; and ensuring that there is a foundation for effective corporate governance framework (OECD, 2004). The researcher notes that while some SMEs have at least one shareholder, others have guarantors, as a result of UK regulations (Companies House, 2019). Consequently, according to OECD corporate governance framework, the duties of shareholders and stakeholders as well as issues of transparency, disclosure and equity, may be relevant to SMEs in the UK.

2.7.2 Corporate governance development in the UK

Following the global corporate scandals of the early 1990s of which the Barings Bank scandal took place in the UK, the Cadbury Committee was empanelled in 1992 in relation to the 'The Financial Aspect of Corporate Governance' (Cadbury Report, 1992). The Committee's recommendations centred on key issues relating to the need to separate the chairman's role from that of the chief executive officer; the process for the selection of non-executive directors (NEDs); the need for the composition of the board to be balanced; effective internal control and a code of best practice; financial reporting practices that are transparent, among other things. This report resulted in the publication of the UK's Combined Codes of corporate governance and some other countries followed suit (Monks and Minow, 2004; Stiles and Taylor, 2001). The researcher is of the view that the noted scandals that resulted in UK's corporate governance initiatives relate to large corporations. However, he believes that issues addressed by the Cadbury Report (1992), such as effective internal control and transparent financial reporting, are relevant to SMEs. Consequently, he opines that SMEs may benefit from embracing them.

In 1998 a Combined Code of Practice emerged from the reports of the Cadbury Committee (1998), the Greenbury Report (1995) which was empanelled in relation to the remuneration of executive directors (EDs) and the Hampel Committee (Hampel, 1998) that was set up to examine the degree of implementation of the Cadbury and Greenbury reports. This was the first of the two stages through which the Combined Code of Practice passed (Nwanji and Howell, 2004). This first code covered the structure of boards of directors and their operations, accountability and audit, the remuneration of directors, relationship between the firm and institutional shareholders, and institutional shareholders' responsibilities.

When the Combined Code emerged, it applied to all the companies that were listed. The code requires the companies to confirm in their annual reports that they have adhered to the code's requirements. It also requires them to explain how they have done so. Where the firm has not met the requirements of the Combined Code, it is required to explain why, and for how long. The Turnbull Report (1999), which focused on internal control, formally set out these requirements and how to comply with them. The guidelines were approved by the Security and Exchange Commission (SEC) and form a framework for adequate internal control. In addition, it was made a condition required to comply with Section 404 of the Sarbanes-Oxley Act 2002. The Act of 2002 was introduced in order to enhance auditing firms' accountability and encourage them to be independent and objective (Jahmani and Dawling, 2008). Furthermore, the guidelines expect directors to take responsibility for the firm's risk management.

As a result of the collapse of Enron, Arthur Andersen and WorldCom in 2001, the Higgs Committee Report (2003) and the Smith Committee Report (2003) were produced. The above committees focused on 'The role of the Effectiveness of Non-Executive Directors' and 'Audit Committees and Combined Code Guidance' respectively. The two reports' recommendations made changes to the first stage of the Combined Code of corporate governance and brought it to an end (Nwanji and Howell, 2004). The UK corporate governance system has been significantly influenced by the EU. Its Corporate Governance and Company Law Action Plan has influenced the corporate governance practices of member-states (Financial Services Authority, 2009). Over time the EU has made governance recommendations that are legislative as well as regulatory. Such actions have impacted on EU member states, regulation of international financial services and corporate governance in the UK.

Furthermore, events such as huge bank losses and failures in the UK as well as the global financial crisis have resulted in a more recent corporate governance code in the UK. The Walker (2009) and the Turner (2009) were empanelled to examine governance issues in UK banks in the light of the huge losses and bank failures, and the causes of the global financial crisis respectively. The Financial Reporting Council (2010) subsequently published a new code of corporate governance for the UK in 2010. In 2018 the council updated the code. The new code aims at setting higher corporate governance standards in the UK and promoting integrity and transparency. It seeks to promote a positive relationship between organisations, shareholders and the stakeholders. In addition, it emphasises the importance of relationships that are positive as well as good-quality board membership, healthy corporate culture, proportionate remuneration that would support long-term growth and a focus on diversity (Financial Reporting Council, 2018).

2.7.3 Corporate governance in emerging economies

A combination of factors led emerging and developing economies to introduce corporate governance principles. Reed (2002) is of the opinion that high international debts and poor economic results in these nations to interventions by the International Monetary Fund (IMF) and the World Bank with the aim of improving corporate governance. Tsemanyi *et al*. (2007) considers that the pressures of globalisation as well as the adoption of economic reforms formulated by the World Bank and IMF has compelled developing countries to adopt corporate governance principles. Tsemanyi (*ibid*) also points to scandals in the financial sectors of these countries. In addition, the influence of organisations such as the OECD, Commonwealth Association for Corporate Governance (CACG) and the International Organisation for Securities Commission (IOSCO) have been brought to bear on these countries (Gulger *et al*., 2003; Tsemanyi *et al*., *ibid*).

Developing countries have experienced significant corporate governance developments in the areas of economic liberalisation, establishment of institutional, legal and regulatory frameworks, development of codes of best practice and privatisation of enterprises that are state-owned (Prempeh, 2002). These initiatives were carried out with the support of donor agencies and nations as well as multilateral agencies (Gulgar *et al*., 2003; Reed, 2002). However, corporate governance challenges persist in these countries despite these efforts. These are a result of ineffectiveness of boards of directors, underdeveloped capital markets, institutional weaknesses, limited information gathering and analysis capabilities of financial institutions, poor investor protection and inability of minority shareholders to influence governance due to capital market underdevelopment (Mensah, 2003; Okeahalam and Akinboade, 2003).

Some scholars have questioned the applicability of foreign corporate governance practices and principles to developing countries. The legal systems consisting of civil and common law as well as institutional frameworks in countries underpin their corporate governance. Interestingly, these legal systems reflect the colonial legacies of developing countries. In addition, a mixture of the governance systems found in developed countries have been adopted by developing countries (Melysoki, 2005; Porta *et al*., 2000). As a result, Solomon (2004) caution that, due to the differences in economic, cultural, political and technological systems, foreign corporate governance practices are not directly applicable to emerging economies and developing countries.

In the African continent, the King Reports on Corporate Governance (1994, 2002; 2009) referred to as King I, King II and King III respectively, were a significant corporate governance initiative in South Africa. In 2016 a fourth revision, King IV, was produced (King Report, 2016). Guidelines for governance structures as well as operations are outlined in these reports produced by the Institute of Directors in Southern Africa (IoDSA). Importantly, companies listed on the South Africa Stock Exchange are required to comply with the provisions of the report. The report is underpinned by three key principles of sustainability, leadership and good corporate citizenship. A principle- and practice-based initiative which espouses, apply or explains the approach, the King Reports, are non-legislative and are summarised below in Table 2.1.

S/No.	Title	Key focus	General
1.	King I	• The composition and mandate of Board of Directors; NEDs' roles and guidance on their composition. • Frequency of board meetings. • Board appointment and guidance on ED's tenure. • Determining and disclosure of EDs and NEDs remuneration. • Guideline on effective auditing and quality of annual reporting • The code of ethics of the company. • The company's affirmative action.	• Code of conduct for the boards of listed companies and some organisations that are state-owned. • Integrated stakeholder approach.
2.	King II	• The responsibilities of directors. • Internal audit. • Risk management. • Auditing and accounting • Sustainability reporting that is integrated.	• Introduced the corporate board's role, risk management and sustainability.
3.	King III	• Approval of NEDs' remunerations by shareholders. • Internal auditing that is risk-based. • Alternative dispute resolution (ADR). • The company's board and directors' job-performance evaluation. In addition: • IT governance • Business rescue • Directors' responsibilities during amalgamations, mergers and acquisitions.	• Applicable to all entities: private, public and non-profit. • Not enforceable through legislation, but embodied in Company Act of South Africa, 2008.
4.	King IV	• Currently ongoing. • Consolidating previous initiatives and global corporate governance best practices.	• King IV aims to make the report more accessible to private firms, non-profit organisations and organisations in the public sector.

Table 2.1 Summary of the King Reports on corporate governance

The King Report has been noted as a ground-breaking initiative in corporate governance and an excellent summary of global best practices in corporate governance (Banhegyi, 2007). It is an ongoing initiative with a project committee overseeing its redrafting and the King Committee supervises the process and ultimately approves the report. Instructively, IoDSA is the custodian of the report. In the context of this research, King II appears to address issues which may be of relevance to SMEs: it sets out the responsibilities of directors, directorship being a feature that is common in SMEs; it lays emphasis on internal audit and risk management, which is relevant to all organisations, including SMEs; and it integrates sustainability-reporting into corporate governance, sustainability being a concept that is relevant to all organisations.

2.8 Corporate governance: a strategic tool

An important question which organisations have to consider in setting out their strategies for decision-making is whether their purpose is simply to make money. Organisations need to highlight the main stages of their development and growth, and envisage how their structures may change as they develop (Gully *et al*., 2006). In her analysis of the strategic context of corporate governance Parum (2006) notes that since organisations exist to fulfil a purpose, strategies are brought in to ensure that this organisational purpose is achieved. As such, Andrew (1987) defines strategy as an approach resulting from formal planning, an analytical process establishing long-term objectives, and a process initiated by the senior managers of the firm and implemented by staff.

Corporate governance could be harnessed to optimise relationships in the workplace between customers, employees, suppliers, local communities and other stakeholders. Based on this, Davis (1999) believes that it could also be used to create competitive advantage for the organisation. This could be achieved by maximising the effectiveness of the system of operation of which the company is at the centre. This position is consistent with that of Mallin (2016) who argues that corporate governance is also perceived as a mechanism that is necessary to help the organisation achieve its corporate objectives. She also highlights the relationship to performance monitoring, noting that it is an important element in these objectives.

Furthermore, in his work on corporate governance and the structure of an organisation, Kay (1993) highlights the role of a firm's architecture in providing a form of competitive advantage. He points out that the architecture consists of both the internal and external network of contracts into which the firm has entered with its employees, suppliers and customers. He goes on to note that in some cases the contract involves a company's competitors in the form of strategic alliances. He further opines that contracting on the basis of collaboration and in a 'relational' sense instead of the usual adversarial way gives rise to competitive advantage thereby benefiting shareholders.

Moore (1999) also identifies the firm as a nexus of contracts. He holds that the stakeholder approach to managing relationships gives an extra dimension, meaning that when these relationships are well managed, they bring about higher social returns for the stakeholders. Furthermore, the issue of social relationships and economic contracts has been analysed by Jones (1995). He believes that in order to contain opportunistic costs arising from commitment problems, a firm could enter into contracts based on mutual trust and cooperation between its manager and stakeholders, which would result in competitive advantage over those firms which do not have such contracts.

The board of directors of a company has overall responsibility for control of the environment. In addition, all members of the firm have a responsibility to meet the firm's objectives as well as confronting the associated risks of those objectives, and developing controls to manage those risks (Dahm, 2003; Davis, 1999). In their paper on a firm's processes, Kress *et al*., (2005) point out that multiple inputs help to ensure the activities of a business are honest, while simplicity will ensure that things are effective and transparent. They also argue that, rather than highlighting errors but taking little action, governance programmes should have internal auditors taking the next step. They should work with business units to help managers understand how best to implement regulations within the business, and they should also use the regulations to the advantage of the organisation, taking into consideration what is both possible and ethical.

Managing an organisation in a transparent manner is an important condition for ensuring that its shareholders and other stakeholders are able to assess and relate to the organisation. This would contribute to constructive interaction with the company (Parum, 2006). Best practice is known to be crucial to promoting transparency, accountability, integrity and efficiency in order to sustain businesses (Parker *et al*., 2002). In the view of Kirkpatrick (2004, cited in Mardjono, 2005) good governance principles and their implementation underpin market confidence, integrity and efficiency, which then drives economic growth and financial stability.

Corporate governance is important in relation to the issues of corporate identity and external communications. Scholars have pointed out that the corporate identity of organisations has extended beyond logos and other symbols; consequently, it is almost impossible to communicate solely via these representations (Van Riel, 1995). The reason is that stakeholders, consciously or unconsciously, use all their senses to form a complete picture of the object in question. Birkigt and Stadler (1986) have broadened the meaning of corporate identity to that of a concept by means of which corporate strategy is linked to communication in a very broad sense. This could involve the firm's planned activities as well as the routine operational self-presentation, which includes behaviour, communication and symbolism, either internal or external, and is based on its philosophy. Furthermore, Branco and Rodrigues (2006, p.122) have found that an organisation's "reputation effects and ability to influence public policy by 'raising the bar' for compliance standards enhances the competitive advantage of environmentally proactive organisations."

2.9 Conclusion

Corporations have been observed to possess enormous powers, which are only a little less than those of governments. This consequently gives them a disproportionate amount of political power over employees and consumers, which has ethical implications (Mills, 1959; Quigley, 2003; Drucker, 1993). Over time expectations have increased with regard to these corporations such that some roles that were traditionally in a government's domain are now expected to be played by them (Scherer *et al*., 2006). Such increased expectations demand that these corporations are run properly. They should proactively seek ways to contribute positively to society through fostering social and environmental change. This is preferable to failing to protect human rights, aggravating poverty and polluting the environment (Scherer and Palazzo, 2007; Ulrich, 2008). Interestingly, these expectations extend to firms of different forms and sizes, including SMEs, which are the focus of this study.

Events over time have brought to the fore governance issues concerning organisations. Such issues relate to corporate accountability, organisations' finance, economic and social goals, as well as the roles and responsibilities of managers (Cadbury, 1998, Zahra, 2014). These issues have given rise to the concept of corporate governance, which also relates to rules, systems and regulation, as well as relationships between a company's management, its board of directors, shareholders and other stakeholders. Researchers have identified various models of corporate governance, four of which this study has discussed (Albert-Roulhac and Breen, 2005; Nwanji and Howell, 2007b).

Different corporate governance systems have been developed in different countries over time as a result of different structures that exist in each country. Two dominant categories of governance systems, network-oriented and market-oriented, were identified by Moreland (1995). In addition, corporate governance systems were further classified into insider and outsider models on the basis of their financing arrangements and legal structures (Clarke, 2004; Weimer and Pape, 1998). Interestingly, the categorisations in corporate governance are largely driven by the distinction between shareholders and stakeholders. This distinction has resulted in the four major systems of corporate governance clustered into those favoured by Germanic nations, Anglo-Saxon countries, Latin countries and Japan. All these have resulted in corporate governance initiatives aimed at addressing issues that relate to governance of a firm over time.

As a result of being an integral part of the society, companies rely on their activities being accepted by society to ensure their growth. A legitimacy gap arises when there is a difference between corporate performance and social expectation (Branco and Rodrigues, 2007; Greenwood, 2007). Consequently, issues relating to corporate decision-making, as well as behaviour, have fallen under the purview of CSR, an element of corporate governance. Furthermore, as a result of the privileges granted by society that are inherent in the corporate form, firms are obliged to uphold their ‘contract’ with society. In addition, they also have to fulfil their organisational purpose through a set of formal plans, analytical processes and procedures referred to as ‘strategy’ (Andrew, 1987). When corporate governance is properly harnessed, relationships between customers, suppliers, employees, communities and other stakeholders are optimised in a manner that creates competitive advantage.

The next chapter will examine the theoretical perspectives of corporate governance attempting to explore the relevant theories of corporate governance that relate to this study with a view to understanding how they underpin the research.

Chapter 3

Sustainability and SMEs

3.0 Introduction

In order to understand how corporate governance could become a strategic tool to promote the sustainability of SMEs, the meaning and implications of sustainability need to be examined. The concept of sustainability referred to interchangeably as corporate sustainability, has been given various interpretations in academic literature, hence the need to situate it appropriately in the context of this study. Consequently, effort will be made to explore the notions of sustainability discussed by various scholars, to aggregate the ideas proposed in previous studies, and offer a definition of the concept.

Furthermore, this chapter will explore the concept of sustainability through an examination of its origin, namely, sustainable development. It will seek to determine the relationship between the two concepts of sustainability and sustainable development. There will be an analysis of the perspectives of various scholars on corporate sustainability as well as its relationship with value creation. It will also examine the levels of sustainability that exist, before analysing the approaches to sustainability, as well as discussing how SMEs could become sustainable.

3.1 What is sustainability?

The effort to understand and define sustainability persists and the debates around it have enhanced its quality (Bell and Morse, 2003). These definitions have thrown up approaches that vary, but are related (Turner *et al.*, 1994). Consequently, considering the context of this research, it may be interesting to see how the outcomes of these efforts relate to the issues pertaining to SMEs being examined in this research. Robert (1988, cited in Pearce and Turner, 1990) defines sustainability as a strategy that is focused on managing all the assets of an organisation. This includes human and natural resources, as well as physical and financial assets in the long term. For their part, Lynam and Herdt (1989) consider that sustainability entails a system's capacity to ensure that its output is similar to the historical average. This mirrors Redclift (1987) who defines sustainability as a system's capacity to maintain production, even in the face of significant challenges, anticipated and unanticipated. While some of these definitions appear to focus on specific issues relating to organisations, others appear broad. What these definitions have in common appears to be the management of resources, as well as the need for some sort of stability.

Furthermore, Pearce and Turner (1990) note that sustainability entails the maximisation of economic development's net benefit. They also point out the need for quality of resources to be maintained over time. For his part, Costanza (1991) defines sustainability as the ability to indefinitely maintain a level of consumption without it resulting in the degrading of stock, capital or nature being degraded. Similarly, Kubani (1996, cited in Guy and Kilbert, 1998) believes that sustainability is a practice involving the best use of resources, as well as interconnections involving all stakeholders. HSD (1992 cited in Du Pisani, 2006) focuses more on the organisation and goes on to define it as the adoption of activities and business strategies which satisfy the enterprise's needs and those of the stakeholders. They also highlight the importance of protection, sustenance and enhancement of resources, which will be required in the future. Analysis of these perspectives appears to highlight issues of economic benefit, resource consumption and strategies as being important to sustainability.

Other scholars have also provided perspectives on the meaning of sustainability. Dyllick and Hockerts (2002) are more pointed in their efforts. They define corporate sustainability as the capacity to satisfy the stakeholders' needs in a way that does not undermine the organisation's ability to do so in the future. Similarly, Dupont (cited in Tebo, 2005) defines it as the creation of value for shareholders and society while at the same time minimising the environmental footprint. Furthermore, Sikdar (2003) considers that sustainability entails a healthy balance between economic development, social equity and environmental stewardship. Labuschagne *et al*. (2005), for their part, opine that business sustainability involves an adoption of activities and strategies that help the enterprise as well as its stakeholders to meet their needs. They go on to note that it also involves simultaneously sustaining the resources that will be required in the future.

Interestingly, the definitions above appear to be relevant to a range of issues that are important to SMEs. The issue of SMEs short lifespan is noted as a fundamental issue (OECD, 2007) and is clearly a sustainability issue in the opinion of the researcher. Consequently, sustainability's focus on assets management and maintenance of output (Lynam and Herdt, 1989; Redclift, 1987) are relevant to SMEs. The perspective on sustainability provided by Pearce and Turner (1990) regarding the need to maintain the quality of resources over time could be of importance to the SME sector. In addition, certain distinctive weaknesses have been identified in that sector, and they include focus on short-term goals and issues relating to difficulty in making strategic decisions (Hogarth-Scott *et al*., 1996; Sashittal and Wilemon, 1996). Other definitions of sustainability have touched on issues relating to the inter-relationship between economic, social and environmental development and stakeholders (Dyllick and Hockerts, 2002; Costanza, 1991; Sikdar, 2003). As such, the researcher is of the opinion that the core issues of sustainability are relevant to issues relating to SMEs.

One can argue, based on the varying perspectives, that sustainability focuses on an organisation's purpose as well as sustainable development objectives in the long term (Metcalfe, 1998). In the context of this research, sustainability focuses on SMEs' purpose as well as their ability to contribute to sustainable development objectives. A sustainable approach to running a business involves the organisation seeking approaches which will ensure that its business endures. "This should be by achieving advantages that are sustainable through means that are fundamentally different; reinventing traditional management approaches and practices such that they are sustainable" (Dunkwu *et al*., 2016, p. 137). Consequently, for the purpose of this study, sustainability could be defined as an organisation's quest to ensure that its business endures through the use of strategies that create a balance between its current needs and its future interests.

3.2 Sustainability: examining its background

In contributing to positive environmental change, organisations could develop efficient and effective ways of doing business. Technological cycles develop a product or a service, and are made up of the following sequence of activities: extracting resources, storage of materials, transportation of goods and services, transformation, various types of production, storage and distribution, waste formation and control, partial recycling or reuse, and forms of waste disposal - water, air, ground (Orecchini and Naso, 2003). Economists perceive nature as a backdrop against which resources could be considered in isolation as macroeconomic forecasts invariably exclude natural resources. This fails to deduct the depreciation of natural capital[1] that accompanies domestic production when defining economic growth or gross domestic product (GDP) – the total value of the final goods and services an economy produces[2] (Dasgupta, 2007).

This technology cycle displays the limitations that the concept of sustainability has demonstrated in the present model of human existence, which carries the possibility of bringing civilisation to an end. This is the result of human beings taking useful material from the environment and transforming it into useless waste that is usually dangerous to humankind, wildlife and the environment (Orecchini, 2007; United Nations World Commission on Environment and Development, 1987; 2002). A model that is open and cyclic in nature begins with a state of environmental balance and ends with a state of environmental imbalance, consumption of resources and production of waste which cannot continue (Orecchini, *ibid*; Dunkwu *et al*., 2016).

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[1] Natural capital should be viewed in an inclusive way, with pollutants being seen as the reverse side of natural resources (Wikstrom, 2010).

[2] An economy's productive base includes its capital base (stocks of manufactured, human, and natural capital, and knowledge) and institutions (including its cultural coordinates).
The productive base of an economy will shrink if its stock of capital assets depreciates and its institutions fail to improve sufficiently in order to compensate for the depreciation.
A country's productive base could grow while its GDP increases or its United Nations' Human Development Index (HDI) improves – a path to economic development.
It is a possibility that the productive base of a country could shrink within a period of GDP growth or HDI improvement. However, no one may observe the shrinking if everyone is focused on the GDP or HDI. Sooner or later the economic growth will stop or be reversed and HDI will begin to fall if the productive base continues to shrink – resulting in decline of the standard of living.
Economic development is sustainable if, relative to the overall population, a country's productive base remains stable. (Wikstrom, 2010)

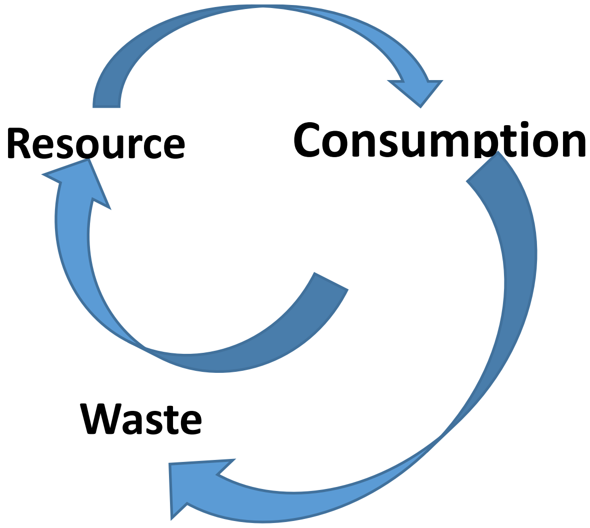

Fig. 3.1 A model that is open in nature, is not operationally cyclic and reflects global use of resources (Source: Dunkwu *et al*., 2016, p. 135)

3.3 Sustainable development, the broader concept

Environmental issues and those relating to sustainability have been perceived as traditionally being part of business ethics and CSR (Ketola, 2008; Daub and Ergenzinger, 2005; Porritt, 2007). Sustainable development as a concept originated from a growing awareness of a global link between environmental issues and socio-economic problems relating to inequality and poverty, and concerns relating to the future of humanity. Environmental problems threaten people's lives, health and livelihood, and could result in wars, and become a threat to future generations (Hopwood *et al*., 2005; WCED, 1987; Giddings *et al*., 2002; Wackernagel and Rees, 1996).

Socio-cultural wellbeing usually depends on economic wellbeing, while environmental wellbeing depends on the physical wellbeing of the planet. This results in the relationships and interdependence of living and non-living components of the biosphere (Capra, 1997; Borland, 2009). Biodiversity is more than an economic or scientific issue; it is an essential element that demonstrates the quality of human existence. Its very essence involves the creation of equilibrium between other organisms and human beings (Huston, 1994; Cheung and Chang, 2003; Lee and Lo, 2016).

Sustainable development was defined by Brundtland Commission in relation to biodiversity and equilibrium. They made reference to equity between today's and future generations, and went on to propose a stable or enhanced level of wellbeing, which is respectful of the carrying capacity of ecological and social systems. This implies a reduction in consumption of non-renewable resources (WCED, 1987). Technically, they are renewable, but only under certain conditions over a very long-time span, thus they are non-renewable in terms of its usefulness to human beings. Renewable sources consist of sunlight, waves, wind, and all types of flora. They are also the only energy sources that are replaceable. While sunlight remains the most important source of renewable energy, it constitutes the basis of all life on earth as, together with flora, it is the source of our food (Naess, 1988; Borland, *ibid*).

In recent years there has been an evolution of a system that includes recycling and reuse, which has enlarged the cycle by adding a secondary cycle which extends materials' useful life by progressively degrading the quality of the material – and this is not the final solution as resources still become waste material but through a longer process (Orecchini and Naso, 2003; Braungart *et al*., 2007; Tansley, 1935). There is therefore a need to start a 'closed cycle', starting with useful resources and returning to them after use in order to realise true sustainable development. This is because there may be opportunities for organisations or units within an organisation to use each other's by-products as a way to reduce waste (Bonn and Fisher, 2011; Dunkwu *et al*., 2016). Consequently, the researcher is of the view that

SMEs may benefit from the adoption of sustainable development principles which may go beyond helping the environment to improving their performance.

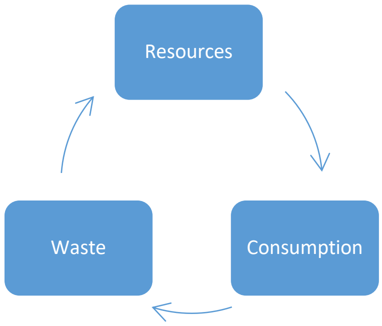

Fig. 3.2: The closed cycle consumption model (Source: Dunkwu *et al*., 2016, p. 135)

Evidence has shown that the world's resources are limited and the current rate of use of natural resources is unsustainable[3]. This is due to an increased pattern of exploitation within a relatively short period (Braungart *et al*., 2007; Cheung and Chang, 2003; Dasgupta, 2007; Borland, 2009). There is therefore the need to create a balance between business ethics, on one hand, which entails individual decision-making, and environmental ethics, on the other. It will involve community interests in a way that is pragmatic, caters for all interests, and is acceptable to all stakeholders (Rosenthal and Buchholz, 2000).

Sustainable development requires national and international policy development on the basis of which the UN Earth Summits have outlined a broad vision in support of global

[333] The twentieth century growth in world population has been about four to six billion. There has been a corresponding increase in industrial output by a multiple of 40; the use of energy by a multiple of 16; growth in the population of methane-producing cattle has increased at the same rate as human population; increase in fish catching by a multiple of 35; emission of carbon and sulphur dioxide by a multiple of 10 resulting from the use of fertilisers, application of nitrogen to the terrestrial environment; the increased presence of fossil fuels and leguminous crops are now greater than what comes from combined natural sources (Dasgupta, 2007)

sustainability (United Nations, 1993; United Nations, 2003). It is defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987 p.43). As such it refers to a firm’s activities that are usually perceived as voluntary, and to the inclusion of social and environmental issues in an organisation’s activities as well as interaction with its stakeholders (Marrewijk and Were, 2003).

3.4 Understanding issues of sustainability

A process is perceived to be primarily unsustainable if it undermines the environmental, social or manufactured inputs upon which it depends. It is secondarily unsustainable if it undermines the environmental, social or manufactured inputs upon which other processes depend. Such processes can be said to cause resource availability infringement (RAI). RAI explains the impact of environmental ‘insults’, such as global warming and acid rain, relative to the wider aspects of sustainability. Also, RAI identifies effects which undermine the process input which is required to maintain process viability. A key feature of unsustainability is the “negative side effect of processing which is expressed as a causal link between the process and an RAI.” Consequently, such unsustainable processes usually have an array of RAIs associated with them (Boron and Keith, 2004, p. 69; Boron, 2018, p. 18). Fig. 3.3 below reflects an unsustainable production process.

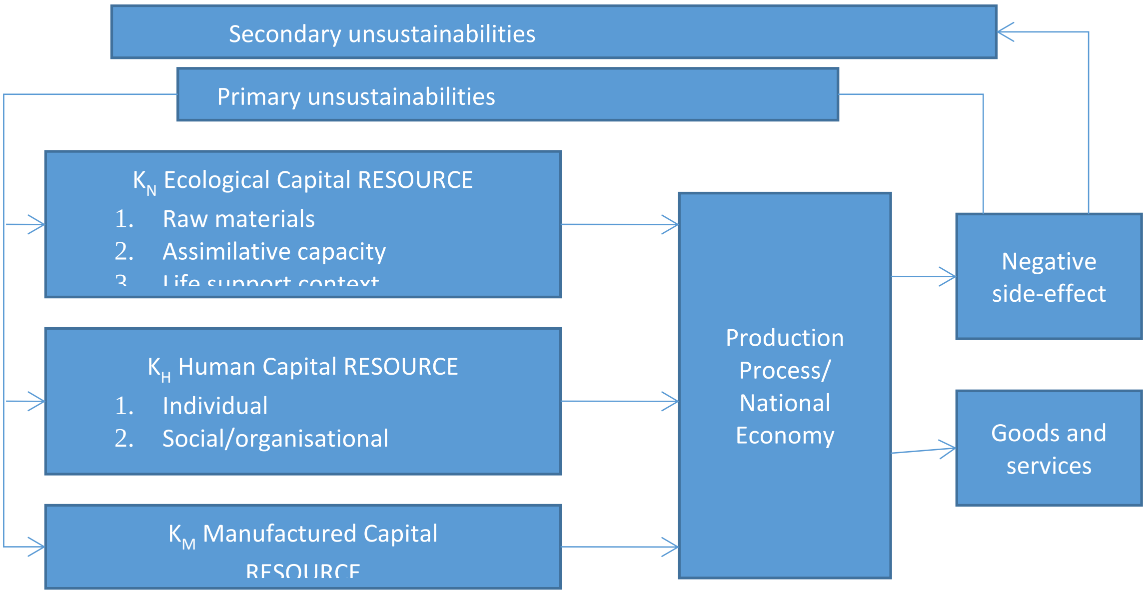

Fig. 3.3: Un-sustainabilities of business and the economy (Boron, 2018, p. 18)

The model consists of three key resources: ecological capital consisting of raw materials as well as the capacity to assimilate, human resources and capital resources. Each of these resources produces outputs that make up goods and also has negative side-effects. Interestingly, the negative side-effects are made up of the primary and secondary unsustainabilities.

There are alternative definitions of sustainable development[4], which may have resulted from a perception that the Brundlandt Commission's definition represents "a political fudge. This is based on an ambiguity of meaning in order to gain widespread acceptance" (Giddings *et al*., 2002, p.188). Consequently, this makes it hard to establish a set of criteria for sustainable development or principles for operational sustainability (Keirstead and Leach, 2008). It has

[4] Five principles of sustainable development are futurity (inter-generational equity); social justice (intra-generational equity); trans-frontier responsibility (geographical equity); procedural equity (treating people openly and fairly); inter-species equity (the importance of biodiversity) (Haughton, 1999)

led to sustainable development suffering “intellectual emptiness” (Luke, 2005, p.228) and permitting it to be interpreted as anything to anybody. Also, it could be used to justify actions ranging from maintaining the *status quo* to transforming society radically (Hopwood *et al*., 2005).

Sustainable development is achieved when society, in the process of its own development, does not compromise the possibility of development for future generations (United Nations, 1987; 1992; 2002). It does not consume resources but uses and reuses them (Orecchini, 2003). This brings us to a concept of sustainability that emphasises economic development that fully considers the environmental consequences of economic activities. It is based on renewable or replaceable resources, which therefore do not become depleted (Baumgartner and Ebner, 2010; Allaby, 1998).

3.5 Sustainability and sustainable development: the relationship

Corporate sustainability describes the transfer of the concept of sustainable development from a societal context to a business context (Wikstrom, 2010; Galbraith *et al*., 2008). It consists of three dimensions; business-related sustainability consisting of auditing, strategy, HR, culture management etc; social sustainability - the consciousness of a person’s responsibility for his or her actions, as well as long-term credible commitment in all business activities, and involving participation in community activities; environmental or ecological sustainability relating to policies concerning the environment, industrialisation’s effect on biodiversity and the production of pollution (Wikstrom, 2010; Baumgartner and Ebner, 2010, Bonn and Fisher, 2011). In the view of the researcher these three dimensions of corporate sustainability are applicable to SMEs. Their activities involve auditing, human resourcing and strategy-setting for their organisations. They appear conscious of their responsibilities for their actions and they implement policies that aid environmental sustainability (EC 2003; 2004). However defined, sustainability will continue to be a force to reckon with, impacting on how businesses act, think, compete and manage (Berns *et al*., 2009).

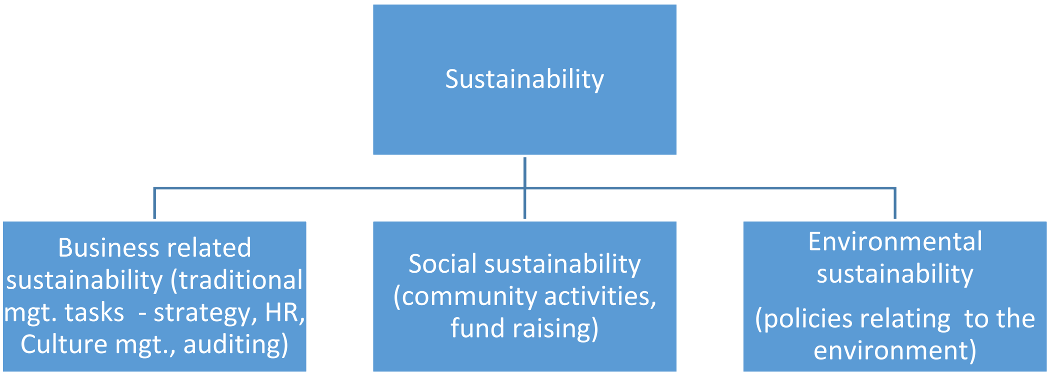

Fig. 3.4: Illustration of the dimensions of sustainability (Source: Dunkwu *et al*., 2016, p. 137)

There is no agreed definition of sustainability (Berns *et al*., 2009). The term sustainable is defined as "capable of being maintained at a certain rate or level" (Oxford English Dictionary, 2006). From a business perspective sustainability is a company's ability to make profit while sustaining the environment (Dictionary of Business, 2002); sustainable profit is acquired through well-planned practices that are socially and environmentally sensitive (Kiuchi and Shireman, 2001; Elkington, 2001). A sustainable business approach denotes a determination to seek means that will help the business to last. This is done by achieving sustainable advantages through measures that are different, thereby turning traditional management practices into sustainable practices (Wikstrom, 2010). Therefore it remains to be seen how these issues apply to SMEs as well as how SMEs' business practices align with these ideas.

Assessing the problem of sustainability properly requires a variety of new or different paradigms. It also requires simultaneous solutions to environmental, economic and social goals instead of trade-offs (Rowledge *et al*., 1999; Lee and Lo, 2016). The life cycle needs to be rethought from cradle to grave, and sustainability has to be adopted as the overriding goal for business operation (La Grega *et al*., 1994; Azapagic and Perdan, 2000; Boron and Keith, 2004). To make a transition to sustainability, economic growth must be decoupled from the effects of environmental resource usage that are negative. Also, a proper definition and framework for sustainable practice needs to be established. Furthermore, an appropriate toolkit for management that will help achieve the transition that it necessarily needs to be assembled (EPSRC, 2001).

The Brundtland Report suggests that a paradigm shift is a necessary condition for a successful transition to sustainable development. The report made this suggestion when it identified a shift in social objectives and a break from existing patterns (World Commission on Environment and Development, 1987). This appears to be consistent with the principles of 'concentricity', which reminds us of the tolerance inherent in the environment and our total dependence on it for our existence. It also reiterates the idea that sustainability has three core domains whose relationships are hierarchical, namely, environment, economics, and society, not a co-planar one (Mitchell, 2000; Clift, 1998).

It is important to note that economics is constrained primarily by environmental limits and secondarily by social limits, and that it is subservient to these two in the sustainability context. This requires a reconfiguration involving the incorporation of binding environmental and social laws into economic mechanisms (Lee and Lo, 2016). Consequently, it will entail making decisions in order to accommodate this higher reality when the three domains are considered together. This will result in trade-offs being unacceptable as a mechanism of management in actualising sustainable development (Boron and Murray, 2004; Pearce and Turner, 1990; Schumacher, 1974). As such, SMEs need to consider these environmental and social limitations which constrain economics and reconfigure their economic mechanisms. This should eliminate trade-offs and institute sustainable development.

3.6 Approaches to sustainability

Wikstrom (2010) identifies two broad approaches to sustainability that exist in organisations, which are fundamentally different: organisation alpha, which emphasises the importance of environmental concern and links the organisation's activities to an ISO system; and organisation beta, which changes its methods in anticipation of changes in regulations in order to keep ahead of anticipated new regulations and competition. Both of these are process approaches. However, from an organisational perspective sustainability is approached in two ways: organisation for sustainability, which is normative and practical, implying the use of environmentally friendly means of production and products; and sustainable business/organisation, which is concerned with traditional business management. Both converge in their aim of achieving a sustainable organisation, as reflected in Figure 3.5 below.

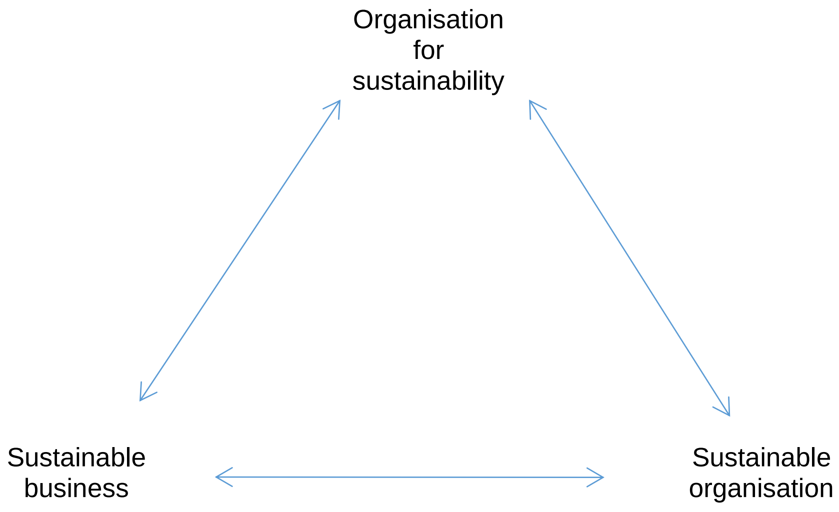

Fig. 3.5: Three sustainability perspectives (Source: Wikstrom, 2010, p. 105)

The objectives of sustainability are to meet everyone's basic needs and extend the opportunity to fulfil everyone's aspirations for a better life. It also includes the moderation of the use and consumption of the earth's resources, and the renewal of natural resources that are finite and depleted (Shrivastava, 1995; Lee and Lo, 2016). Given the sustainability agenda's potential and breadth, relevant research covers such diverse disciplines as politics, ecology and economics (Webster, 1998; Wackernagel and Rees, 1996; Hediger, 1997). Sustainability is an ongoing process requiring the ability of organisations and societies to adapt successfully to evolving and changing circumstances, not adhering to fixed goals (Newman, 2007). Pursuing such a focus could be guided by principles which entail the protection of the ecological system in line with its carrying capacity. It also entails using non-renewable resources in a careful manner, fulfilling the basic needs of human beings, as well as promoting equity intra- and inter-generationally (Kallio *et al*., 2007; Holden and Linnerud, 2007; Ludwig, 1997).

It appears that business is destroying the earth (Hawken, 1993) and is consequently being called to account (Arora and Soni, 2017). In the work of Boron and Murray (2004 p.12) it is noted that “the economic system is part of the problem rather than the solution.” Other scholars note that business activities are hugely damaging to the earth, and also that since corporations are at the heart of modern society, they are a part of the problem. Scholars go on to argue that businesses are required therefore to be part of the solution as they possess the financial and technological resources, as well as the institutional capacity to implement sustainable solutions (Hart, 1997; Hawken, 1993; Shrivastava, 1995; Dunphy and Benveniste, 2000). Boron and Murray further note that companies are more than just purveyors of the products we require, they are also among the most powerful political forces of our time, driving such powerful organisations as the World Trade Organisation (Klein, 2000).

The greater the awareness of sustainability, the more thoughtfully people evaluate it and the more they perceive additional opportunities for business and product development. This results in improving the firm’s image in relation to how it is run, and how it positions itself (Kaye and Jordan-Evans, 2005; Berns[5]*et al*., 2009; Bonn and Fisher, 2011; Willard, 2002). As such, numerous business opportunities await firms that are willing to lead the way and identify and manage new products, services, ideas, values, consumer culture and behaviour (Hall and Vredenberg, 2003; Lovins, 2007; Hart and Milstein, 1997).

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[5] Organisations can do so much to connect their stated intent in terms of sustainability with business impact in a way that maintains explicit links with the bottom line over the short and long term.
Findings indicate that government legislation has the greatest impact on sustainability-related issues (67%) followed by consumer concerns (58%), and employee interest (56%) (Berns *et al*., 2009)

Businesses attempt to link their activities to sustainability standards and benchmarks, while also developing processes and internal measurement systems which are based on sustainability. In addition, they employ sustainability for the purpose of branding (Elkington *et al*., 2006). Product sustainability is influenced by the technology employed in its production: the types of raw materials that could be used, potential production efficiencies that are achievable, the kinds of pollution emitted and its quantity, employees and public health and safety, and the management of waste (Bonn and Fisher, 2011). All of these impacts not just on the quality of the organisation's products, but also on the way it is perceived by the market.

SMEs' adoption of sustainability principles is likely to have multiple and positive effects. This is likely to result in the moderation of their consumption of natural resources (Lee and Lo, 2016). This is in addition to the benefit of engendering processes which enable their organisations to evolve and change successfully in response to circumstances, while continuing to adhere to their set objectives (Newman, 2007). Such an approach would entail the protection of the ecological system in order to sustain its carrying capacity, careful use of non-renewable resources and promotion of generational equity (Kallio *et al*., 2007; Holden and Linnerud, 2007). Increased awareness of sustainability among SMEs enhances their ability to evaluate it. This potentially results in increased perception of business and product opportunities and a consequent improvement in the organisation's image (Bonn and Fisher, 2011; Kaye and Jordan-Evans, 2005).

Multinationals, such as Nike, believe that we are presently experiencing a shift from a knowledge-based economy to a sustainability-based economy. This is as a result of business choices being increasingly influenced by environmental constraints (Epstein *et al*., 2010). Sustainability transcends the original differentiated view of corporate citizenship that deals with social and environmental activities as 'add-on' functions of the firm (Hart, 1997). It is a normative concept within which belief systems that are ethical converge to restrict much of the 'free space' of organisations (Galdwin *et al*., 1995). This requires a comprehensive integration of environmental and social issues into the vision, mission, values and activities of an organisation (Shrivastava, 1995).

The Brundtland Report emphasises the need for all countries to adopt the objectives of sustainable development as their overriding goal in their pursuit of a prosperous, just and secure future (WCED, 1987). Sweden, for example, has developed a socio-economic framework that is actively aligned with the objectives of sustainable development, making it easier to prioritise the pursuit of sustainability in business. In the absence of such a national strategy the dilemma for business persists, making management challenges more demanding (Rowledge *et al*., 1999). However, organisations need to examine what is in their strategic interests: maintaining the status quo, or transitioning to sustainability.

As a result of economic imperatives, heads and managers of organisations have found it difficult to integrate sustainability values into their organisation's fabric. Firms must achieve solutions that offer both sustainability and profitability, as well as radically changing the perception of success from one which is economically based to a sustainability-based one (Quinn and Dalton, 2009; Lee and Lo, 2016). Many leaders are of the opinion that clarifying the business case for sustainability constitutes the single most effective strategy to accelerate decisive organisational action. This is because it touches the very heart of how organisations determine how they will, or will not, allocate resources and effort (Berns *et al*., 2009).

Developing a vision of sustainability represents a roadmap into the future, and only a few firms possess this at present (Hart, 1997).

Organisations have been slow to embrace sustainability due to the lack of an appropriate business case that quantifies the likely results. This has been noted in sustainability literature as the biggest gap (Willard, 2002; Salzman *et al*., 2005). In addition, managers do not comprehend the issues or how to develop the governance and strategies required to follow a more sustainable path.[6] They lack an overall plan and many of their actions are defensive, disconnected initiatives focusing only on products, employees, facilities and the wider community (Doppelt, 2003; Bern *et al*., 2009). Berns[7] *et al*. (2009) further identify three major obstacles to implementing sustainability initiatives. These are overcoming scepticism within an organisation, working out how sustainability could be institutionalised throughout the organisation, as well as how to measure, track and report efforts geared towards sustainability. The model below, Figure 3.6, illustrates how sustainability impacts on value creation.

[6] Levels of commitment to sustainability and social responsibility are reactive (doing less than required, and denying responsibility); defensive (admitting responsibility and dealing with it, and doing the minimum required); accommodating (accepting responsibility and doing everything required); proactive (anticipating one's responsibility and exceeding what is required) (Carroll, 1997)

[7] The following consensus has emerged: volatility in prices of food, water, energy and other resources is reducing the exposure of organisations that have optimised their sustainability profile; stakeholders are beginning to pay more attention to sustainability, thereby putting pressure on organisations to act; increase in vulnerability of organisations that are failing to pursue sustainability proactively due to regulatory changes resulting from governments' agenda is increasingly advocating sustainability; capital markets are beginning to pay more attention to sustainability and using it in evaluating organisations before making investment decisions; first movers are gaining competitive advantage (Berns *et al*., 2009).

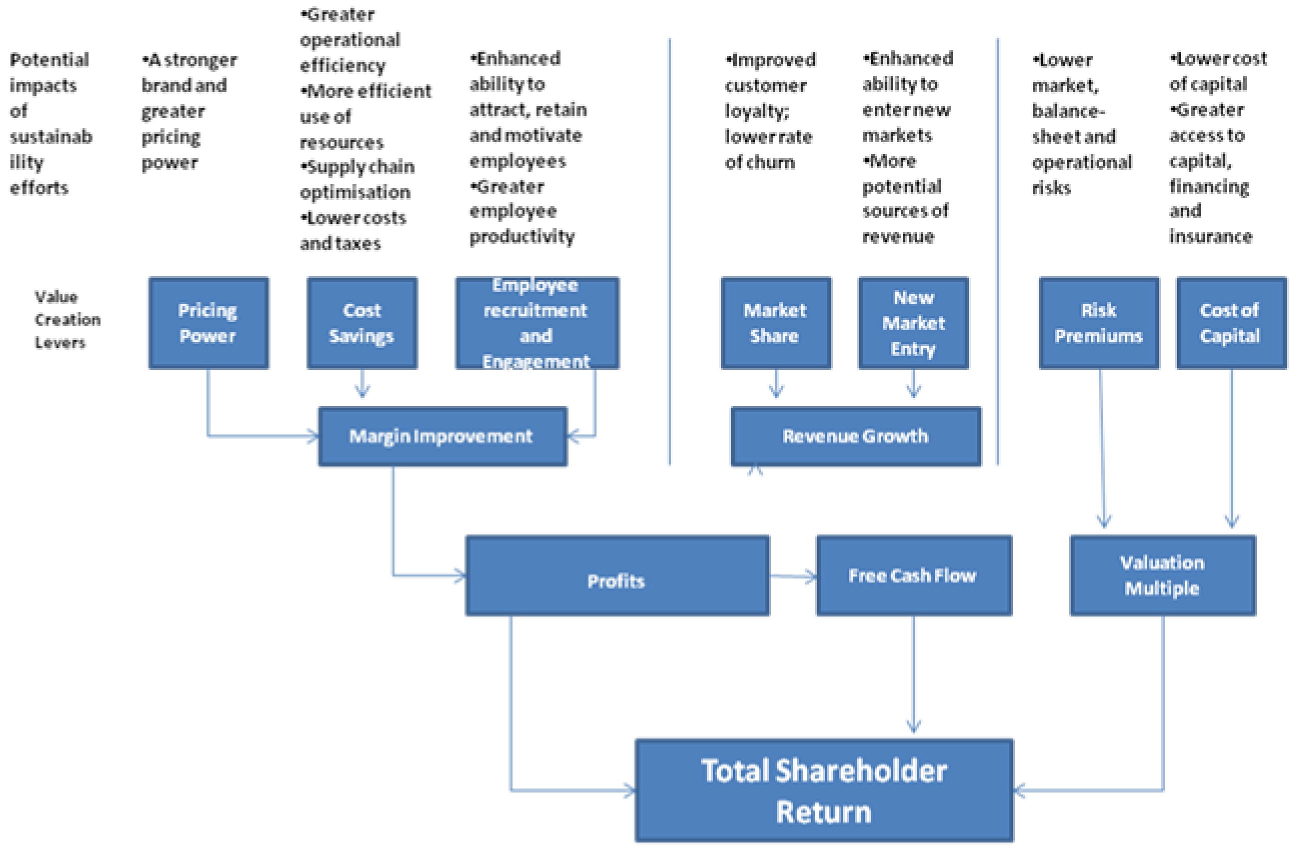

Fig. 3.6: How sustainability affects value creation (source: Berns *et al*., 2009, p. 25)

3.7 Transition to sustainability

Decision-makers in organisations that are transitioning toward sustainability face the challenge of re-evaluating their existing values and assumptions. Bonn and Fisher (2011) recommend that such firms should encourage members of staff to suggest new sustainable opportunities by fostering an environment that supports and rewards such activities. In addition, strategic decision-making processes, as has been acknowledged, are associated with various trade-offs and they are very much interconnected with other organisational decisions.

As such they set a precedent for other decisions. Consequently, managers[8] are encouraged to ensure that they

address different aspects of sustainability, as well as integrating sustainability into their strategies at the corporate, business and functional levels (Wilson, 2003; Bonn and Fisher, *ibid*). There is also the need for managers to reflect the organisation's commitment to sustainability. This could be through a firm's vision, as well as initiatives geared towards achieving sustainability. Such efforts should be proactively supported by the organisation's culture. Furthermore, the organisation should deal with projects that are multifaceted and complex, requiring consideration of the interests of stakeholders. Weick (1995) is of the opinion that this requires a vision of sustainability that is commonly shared within an organisation which supports a perception of success. Such a perception should call for profit to be earned responsibly, with the aim of fostering social justice and environmental protection, as well as offering good guidance and a sense of direction in the process of decision-making (Bonn and Fisher, *ibid*; Weick, *ibid*).

The prevalent socio-economic paradigm needs to give way to a fundamentally new one. The emergent paradigm should subscribe to a more holistic approach that recognises interconnections, interrelationships and interdependencies. It should also be aware that business does not operate in a vacuum, but is part of a larger system that is circular in nature (Shrivastava, 1995; Capra, 2004; Stead and Stead, 2004, 2008). For a sustainability vision and strategy to succeed, they have to be supported by the norms, values and beliefs of the

[8] Practical implication for leaders: 1) Set direction in a positive, engaging and enthusiastic manner; 2) Use the language of business when setting direction and creating alignments; 3) Ideas for sustainability arise from different places and perspectives; maintain commitment; 4) There is no right time or right place; jump in and get started; 5) Make sustainability an integral part of your firm; 6) Share knowledge and foster new and stronger networks.

organisation. These should be reflected in informal problem-solving and decision-making as a system of shared meaning is critical to organisations that aim to be more sustainable. Such a system guides the behaviour of managers and employees, and reinforces the idea of the importance of social and environmental values. Furthermore, it also influences the attitudes of other stakeholders, and, possibly, the wider society, particularly when organisations have the standing or size to take a leadership position (Stead and Stead, 2004; Allen, 2001; Bonn and Fisher, 2011).

Re-evaluation of existing values and assumptions is a key challenge which decision-makers in SMEs transitioning to sustainability would have to address. Consequently, Bonn and Fisher (2011) suggest that organisations should address issues relating to sustainability as well as integrating sustainability into their strategies at functional, business and corporate levels. In the view of Weick (1995) this would require a commonly shared vision of sustainability that supports a perception of success within the organisation. In order to succeed, the sustainability vision and strategy need to be supported by the values, norms and beliefs within SMEs. They should be reflected in informal problem-solving and decision-making in the organisation since a system of shared meaning is critical to organisations seeking to be more sustainable (Stead and Stead, 2004; Bonn and Fisher, 2011).

3.8 Conclusion

Issues relating to the preservation of the planet, have resulted in the concept of corporate sustainability. This is the outcome of effort aimed at changing the consumption model of using natural resources from an open one to a closed one. From a corporate perspective three dimensions of sustainability therefore exist; business-related, social and environmental sustainability. This has resulted in businesses attempting to link their activities to sustainability standards and benchmarks, while also developing processes and internal measurement systems which are based on sustainability. Consequently, four broad strategies have been identified: introverted, extroverted, conservative and visionary.

Increasing global awareness of the link between socio-economic problems associated with inequality and environmental issues has also sharpened the focus on sustainability. Economic wellbeing drives socio-cultural wellbeing, while the physical wellbeing of the planet underpins environmental wellbeing, resulting in interdependencies (Capra, 1997; Borland, 2009). Consequently, sustainable development has arisen in response to the need for equity between the present and the future in a manner that respects the carrying capacity of the ecological and social systems. The expectation is that it should result in a reduction in the consumption of non-renewable resources, which is essential as evidence has shown that the world's resources are limited (WCED, 1987). As a result there appears to have been evolution from an open-cycle model of resource consumption to a closed cycle in recent years.

These developments relating to the earth have brought about the need to create a balance between ethical approaches to business that involve decision-making and environmental ethics (Rosenthal and Buchholz, 2000). Corporate sustainability, as part of these strategies, entails the adaptation of sustainable development principles in business contexts and refers to a company's ability to make a profit and sustain the environment at the same time. The researcher notes that in the course of examining relevant literature nothing was found to indicate that corporate sustainability is distinct from SMEs' sustainability. In any case, this may require further examination in future research. A sustainable business approach therefore entails a focus on ways that would make a business last through advantages that could be sustained, unlike traditional management practices. This requires a simultaneous paradigm shift with respect to environmental, social and economic goals (Rowledge *et al*., 1999). Consequently, economic growth that is sustainable needs to be decoupled from the consequences for the environment of resource utilisation.

The next chapter deals with the methodology underpinning this research. It will examine the philosophical considerations that relate to this research and explore options in relation to methods of research. I will also explore the methodological framework used in this study.

Part 3: Theoretical Perspectives

Chapter 4

Corporate Governance Theories

4.0 Introduction

Different theories have been propounded to enable us to understand issues relating to corporate governance. The issue of alignment of managers' interests with those of the organisation is analysed in accordance with the theory of stewardship. Agency theory not only explains the issue of agency within an organisation, but also what influences the decisions of the agents, which remains a key area in the field of corporate governance. In addition, there has been a wide-ranging debate on the issue of what purpose an organisation should serve: the interests of its stakeholders, which includes the shareholders, or simply the interests of the shareholders? In addition, the institutional theory of corporate governance highlights issues relating to the internal processes, as well as the structure of an organisation, by means of which it achieves its objectives.

This chapter looks at some theories of corporate governance, specifically, stewardship, agency, shareholdership, stakeholdership and institutionalism with a view to determining their relevance to the governance of SMEs. Also, some scholars have provided perspectives on these theories that are critical, and some of these will be examined.

4.1 Stewardship theory

Stewardship theory is premised on sociological and psychological assumptions that the interests of stewards (managers) are aligned with those of the firm and its owners (Albrecht *et* *al*., 2004). This theory focuses on structures which facilitate and empower rather than monitor and control. Proponents reject the agency theory, which is considered individualistic and promotes the attitude of ‘a suspicious police officer’, assuming that principals and agents have different objectives, with the agents being essentially self-serving (Clarke, 2004; Albrecht *et al*., *ibid*). Stewardship thus disputes the view that principals should use increased monitoring and control to keep a check on agents’ opportunistic behaviour.

Stewardship theory is based on the assumption that agents are trustworthy and take good care of resources in their care, making it unnecessary to monitor them. Assuming that managers are not opportunistic and act in the principal’s interest, they should be autonomous. This is a matter of trust, and the result is a reduction in the cost associated with monitoring and control (Davis *et al*., 1997; Donaldson, 1990; Donaldson and Davis, 1994). Stewardship theory premises that the conduct of stewards is collective and results from their endeavours to accomplish the organisational objectives. The resultant profit consequently benefits the principal through increases in share prices and dividends (Davis *et al*., 1997). To this end it is considered that:

> Organisational role-holders are conceived as being motivated by the need to achieve and exercise responsibility and authority, to gain satisfaction through effectively performing essentially challenging work, and to gain recognition from peers and bosses. (Donaldson and Davis, 1994, p.51).

The theory therefore states that governance structures that offer optimal results are those that support effective enterprise coordination. It perceives managers and directors to be the organisation’s stewards, who are likely to increase the wealth of the shareholders, and gain satisfaction from attaining the goals of the organisation through the pursuit of their own

(Davis *et al*., 1997). Consequently, stewardship theory posits that managers' decisions are also

influenced by motives that are non-financial, such as the intrinsic satisfaction of performing successfully, achieving and receiving recognition, and showing respect for authority and work ethics. In the view of the researcher this perspective makes stewardship theory very relevant to SMEs as it offers a clear idea of how the directors and managers are viewed, namely, as stewards. Considering some of the challenges for SMEs that were noted earlier in the review of literature that is, internalisation, limited marketing skills and difficulty in strategic planning, the governance structures are likely to offer optimal results. The managers who are likely to be the owners are therefore more likely to be focused on increasing the owners wealth, being the shareholders themselves.

Stewardship theory further posits that corporate governance should involve directors acting on behalf of the shareholders, and wanting to be good stewards of the organisation's assets. This should not involve opportunistic conduct or conflicts of interest at the shareholders' expense (Muth and Donaldson, 1998). The theory perceives the board of directors to be a support instrument for the CEO, who is a steward, instead of a mechanism of control (Albrecht *et al*., 2004). While it also perceives management as less likely to prioritise earnings, management issues arise concerning to what extent management aspires to achieve good corporate performance.

For managers, the firm is part of their identity, resulting in a personal relationship with the firm's success or failure (Davis *et al*., 1997). In protecting their reputations as experts, managers and directors run their firms in ways that amplify good financial performance. This includes good returns for shareholders as a result of the firm's performance impacting on the perception of their personal performance (Daily *et al*., 2003). According to the theory of stewardship, superior performance of a firm is linked to the composition of the board of directors. This entails having more executive directors as they will have a better understanding of the business than will external directors, thereby informing superior decisions (Donaldson, 1990; Donaldson and Davis, 1994).

Professional managers, according to stewardship theory, maximise corporate profits and the performance of the firm when given effective means of control. Consequently, executive director-dominated boards will benefit the organisation. Their expertise and knowledge, commitment to the organisation, and access to essential information are brought to bear on the organisation. Managers are perceived to make superior decisions due to their possession of more and better information (Boyd, 1994). This further extends to the favourable view of the dual role of the CEO, that is, the same person serves as chairman and chief executive, resulting in better performance of the firm owing to a leadership that is clear and unified (Davis *et al*., 1997; Donaldson and Davis, 1994). Findings indicate that boards with a majority of external directors, reflecting the agency theory perspective, perform less well than those with a majority of internal directors (Bhagat and Black, 1999).

Empirical and theoretical support exists for the stewardship theory (Bhagat and Black, 1999; Davis *et al*., 1997), arguing that a better focus on a company's objectives, implementation of operational decisions and effective leadership result from having executive managers. Such managers are seen to have the responsibility and authority which bring about better corporate governance. Stewardship theory is perceived to provide the theoretical foundation for legislation and better regulation of corporate governance. Some schools of thought consider its predictions to provide a better model of reality when compared with agency theory (Muth and Donaldson, 1998).

Stewardship theory continues to attract strong opposition from those who believe that boards that are dominated by non-executive directors (NEDs) should play a predominant role in corporations (Donaldson and Davis, 1994). Also, influential and powerful sources, such as the Council of Institutional Investors in the U.S.A. and the UK corporate governance codes, are at the forefront in promoting the benefits of independent boards of directors (Mace, 2004). As Choo and Tan (2007) argue, psychologically, the lack of NEDs may allow managers to commit fraud. Albrecht *et al*. (2004) further point out that owing to the relationship between agents and their principals, from the stewardship perspective, opportunities arise for management to broaden its utility. Within SMEs the directors who happen to be the owners are also the shareholders and could be argued to be acting in the organisation's best interest. This appears to align with the view of Muth and Donaldson (1998)

4.2 Agency theory

The agency relationship is defined as a situation in which one or more individuals (the principal(s)), engage another person (the agent) to perform services on their behalf. This involves delegation to the agent, of a certain amount of authority pertaining to decision-making (Jensen and Meckling, 1976). There are two major issues that bedevil this relationship: information asymmetry between the agent and the principal, and divergence of interest or conflict between the agent and the principal (Hill and Jones, 1992). Three major assumptions may result in agency problems: the principal and agent having different attitudes towards risk (Eisenhardt, 1989; Letza *et al*., 2008); the principal and the agent having divergent goals and interests; and the assumption of both parties being ‘utility maximisers’ (opportunistic). The opportunistic scenario may be such that their risk preferences or objectives are not inherently different. Otherwise, there would be a compulsion to believe that a rational agent would not act in the principal’s best interest at all times (Jensen and Meckling, *ibid*). It is the view of the researcher that agency theory is less likely to apply to SMEs because, in addition to other reasons, the proximity of the owner and manager appear greatly reduced. Consequently, the three major assumptions of the theory are either absent or diminished.

The agency theory is premised on the interactions and relationships between the principal (owner of a business) and the agent (the managers), the context of which is the separation of ownership from management in modern firms. The daily operations of the firm are managed by the agent: this creates a distinction between ownership and control, with the potential for conflicts of interest, the resolution of which results in cost to the organisation (Jensen and Meckling, 1976; Eisenhardt, 1989; Letza *et al*., 2008).

When ownership and management do not overlap in firms that are not closely held the board of directors has an important role in protecting the investments of the shareholders. This is due to potential opportunism on the part of managers, hence the emphasis on monitoring and control (Hoskisson *et al*., 1994). External directors tend to depend more on financial evaluation than strategic evaluation, which is ambiguous and open to manipulation by opportunistic managers. This leads to strategic governance being a low priority and managers assessed in terms of financial outcome (Baysinger and Hoskisson, 1990). The role of the board is different in firms that are closely held due to the risk of opportunistic behaviour being low or non-existent. Consequently, the board is able to focus more on service activities, such as stewardship and strategic development, than on control (Brunninge *et al*., 2007).

A major variable that affects an organisation and its governance is its ability to change its strategy. This makes the organisation suitably positioned when it comes to changing internal capabilities and the evolving environment (Pettigrew, 1992; Goodstein and Boeker, 1991). Choices in governance result in actions that are viewed as strategic, which may have implications for an organisation's performance (Wiklund, 1998; Wiklund *et al*., 2003). Since they are closely held firms, this results in SMEs' governance being more entwined compared to other types of business in which there is a clearer separation between management and ownership (Schulze *et al*., 2001, 2003; Cowling, 2003). Directorship, ownership and top management often overlap in SMEs with the same individuals or people, in some cases from the same family, being involved (Nordqvist and Merlin, 2002; Mustakallio *et al*., 2002). Consequently, there is less pressure from external investors as a result of the unification of management and ownership that is concentrated. These external investors usually demand accountability, transparency and strategic renewal (Carnet, 2005). Such organisations have been found to be resistant to change (Kets de Vries, 1993; Sharma *et al*., 1997), to be affected by internal family conflicts and to display defensive behaviours which harm efficiency (Poutziouris et al., 2004; Barach, 1984; Carney, 2005).

The board of directors of an organisation and the top management team (TMT) are distinct entities in an organisational structure, and the composition of these two groups impacts on their relationship. Larger TMTs have been noted to have more skills and ability in terms of identifying the need for strategic change, and how to achieve it. Larger boards of directors tend to be more independent with a greater ability to process information. Such competence is required in the complex decision-making needed to effect strategic change (Forbes and Milliken, 1999; Brunninge *et al*., 2007; Cowling, 2003). However, facilitating the identification of needs and opportunities are elements of the cognitive diversity which external directors can bring to a company. They can actively engage in strategy development, which results in SMEs benefiting from the input from the board of directors and the TMT in decision-making. The ability of the TMT to generate different points of view and strategic options become critical when there are no external directors (Brunninge *et al., ibid*).

Giving voice to strategic decisions is one of the roles of the board of directors. This is an aspect of monitoring and controlling the TMT, a key role of the board, which it is more likely to be played by external members. The result of this is that the space for the TMT to initiate strategic change is constrained and limited (Cowling, 2003; Fama and Jensen, 1983; Johnson *et al*., 1996; Gersick *et al*., 1997). It stems from the resistance to strategic change initiatives on the part of the CEO and/or TMT due to lack of interest of board members or to alternative priorities (Goodstein and Boeker, 1991). The CEO and TMT would be freer to deal with strategic issues in the absence of a board of directors that is active and has external members monitoring and controlling activities. The result is a strong reliance on the TMT in firms that lack external directors to drive the engine of strategic change (Brunninge *et al*., 2007).

The extent of engagement in activities that are risky is one of the major elements of the agency theory. It notes the possibility of such risks being influenced by the ownership and governance of a firm (Jensen and Meckling, 1976; Fama, 1980). Ownership of equity, according to the theory, has direct influence on the propensity to take risks. Such a situation results in managers becoming more averse to risk as their ownership in the firm increases (Denis *et al*., 1997; Beatty and Zajac, 1994; Keasey *et al.*, 2005; Zajac and Westphal, 1994). Principals are more tolerant of risk as they can easily spread their risks through investments in other organisations. For their part, agents possess a lower level of risk tolerance since their investment is in the form of employment (Amihud and Lev, 1981; Eisenhardt, 1989).

There is usually conflict between the divergent goals and objectives of principals and agents, with the principal finding it costly to evaluate the agent's performance. This constitutes the second issue that is inherent in agency theory: agents tend to pursue other goals, such as higher salary or organisational power, being non-residual claimants with regard to the firm's profit. Furthermore, this may lead to agents failing to work hard when it is difficult to measure their performance (Eisendardt, 1989). Organisations in which the principal and agent (independent entrepreneur) are not separate offer better incentives than those whose principals and agents are separated (professional management). This relates to taking on responsibilities that are non-routine, such as the creation of new combinations of factors of production (Jensen and Meckling, 1976; Scott, 1995).

Owner-managers of firms that are closely held, such as SMEs, develop their organisations' strategies at commencement and they remain committed to such strategies over a long period of time due to their personal involvement (Kimberly and Bouchikhi, 1995). Where the ownership of the SME continues to be in the hands of the same individual or group of people, the same interests, sets of value and strategic practices continue. This has a tendency to insulate the manager-owners from environmental changes and performance issues. Consequently, there may be a failure to perceive and respond to changes within the organisation and business environment that may be critical (Goodstein and Boeker, 1991; Tushman and Romanelli, 1985).

One purpose of agency theory is to determine how to make firms function more efficiently in relation to the two conditions described above (Letza *et al*., 2011). In such situations, principals choose between contracts based on behaviour, such as salary, and those based on outcome, such as ownership. Behaviour-based contracts are most efficient when the principal has a complete picture of the agent and can evaluate the degree of his or her underperformance and punish him or her accordingly, thereby reducing the incentive to shirk his or her duties (Eisenhardt, 1989; Scott, 1995; Letza *et al*., *ibid*). The agent has opportunity to shirk such duties when his or her performance cannot be evaluated due to incomplete information. However, an outcome-based contract offers agents rewards that are predicated on outcome. Such outcomes are aligned with the principal's interests and carry with them the risk for the agent that the firm may underperform. This could be due to factors such as government policies, economic climate, technological factors, a competitor's actions and others that may result in variations in outcome that are uncontrollable. The creation of new combinations of the means of production is, in itself, a risky activity as success is not guaranteed. (MacCrimmon and Wehrung, 1986; Jones and Butler, 1992).

While the outcome-based contract could serve as an incentive for agents to create surplus value, there are two inherent problems for firms that are professionally managed. The first is deception as each agent's contribution to the output cannot be verified. This is unlike entrepreneurial situations, resulting in an incentive for individuals to take credit for others' efforts (Holstrom and Tirole, 1987). Secondly, as there exists no strong link between individual and organisational performance, uncertainty will result from outcome-based measures, in which case agents who have no tolerance for uncertainty would leave, and the consequence would be a loss of necessary skills. Offering outcome-based contracts to agents with entrepreneurial skills, though a possible solution, becomes difficult. Significantly, entrepreneurially skilled agents cannot be identified prior to the creation of a new combination of the means of production. In addition, it is difficult to distinguish luck from entrepreneurial skill when what is involved is a large number of decisions that are interconnected, taken in uncertain conditions and on the basis of incomplete information (Amit *et al*., 1993).

At societal level independent entrepreneurship offers a solution to the agency problem that restricts the establishment of new combinations of resources through independent entrepreneurship. This phenomenon allows individuals to choose between agency in professionally managed firms and becoming independent entrepreneurs. It provides individuals with entrepreneurial skills as well as the opportunity to make claims on the residual profits of the firm. Such opportunities act as an incentive to create new combinations, which may result in surplus value (Schmitz, 1989). This is contrary to the situation in professionally managed firms due to the difficulty involved in seeking talents that are entrepreneurial, or the difficulty in offering those with entrepreneurial skills incentives which will encourage them to display the skills (Scott, 1995).

4.2.1 Principal and agent conflict

Resolving conflicts between the interests of the principal and those of the agent is a major preoccupation of agency theory. The principal could limit the problems caused by divergent interests through establishment of appropriate mechanisms of control and incentives to reduce the opportunistic activities of the agents (Fama, 1980; Jensen and Meckling, 1976).

The establishment of control mechanisms results in three major costs, the first of which is the use of resources for the design of monitoring procedures (cost of monitoring). This includes the use of contractual agreements to control the agents' behaviour in relation to compensation. In addition, there are budget restrictions and operational rules, among others. The agent may also be required by the principal to deploy resources (bonding costs) to guarantee that no action that could harm the principal will be taken. This leads to the agent incurring the cost of bonding so as to be granted the right to manage the principal's resources (Hill and Jones, 1992). Despite the creation of structures for monitoring and bonding (governance structures), divergence will still occur. This is likely to be between the decisions of the manager (agent) and the decisions which would maximise the principal's welfare (residual loss). The cost of agency could be said to result from the sum of the monitoring expenditure, bonding cost and residual loss (Jensen and Meckling, 1976).

The internal organisation of a modern firm in which control and ownership are separated may give rise to shareholder-managerial conflict. Agency theory originated in the need to align the managers' interests with those of the shareholders. There are four major ways in which managers' focus on utility (self-interest) can incur cost which may reduce shareholders wealth, namely, expropriation of corporate resources through self-awarding of overgenerous remuneration packages (pecuniary); maximisation of managers' own utility through consumption of additional perquisites (non-pecuniary); investment of excess cash flow entailing overpayment of dividend, even in the absence of investment opportunities that are profitable (problems from free cash flow); and investment of minimal time, effort and personal skill in activities that maximise value, such as searching for new investments that are profitable (Jensen and Meckling, 1976).

Divergence of managerial interests could be limited along with reduction in agency cost by adhering to the principles of agency theory, which suggests the establishment of internal and external structures and mechanisms known as corporate governance (Haniffa and Hudaib, 2006). The internal mechanism will incur agency cost in which case agency theory suggests the creation by the shareholders of internal structures of corporate governance via legal contracts in order to monitor managers. These internal structures may be behaviour-oriented (auditing structure and board), or outcome-oriented (shareholding, salaries and stock options) (Eisenhardt, 1989).

Shareholders could monitor managers' behaviour through the institution of a set of board structures that are hierarchical (Fama, 1980). Formal internal control procedures, such as budget restrictions and auditing, could be used to impose formal control of managers' behaviour, and an incentive remuneration system should be designed which would help align the interests of the managers with those of the shareholders. This should include performance-related rewards for managers (Jensen and Meckling, 1976). Shareholders could be insured against malfeasance through contractual guarantees agreed with managers. In this case managers will bear the cost of bonding through, such means as auditing of financial accounts by independent public auditors; appointment of independent non-executive directors; and alignment of managers' interests through the imposition of minimum managerial shareholding. Shareholders would also need to attain an optimal balance between the institution of outcome-related contracts and behaviour-related internal structures (Eisenhardt, 1989; Jensen and Meckling, 1979).

In the context of this research whether a number of issues that are prominent in agency theory are relevant to SMEs and to what extent remains to be determined. The issue of the control mechanism that results in key costs, namely, cost of monitoring, bonding cost and residual cost (Hill and Jones, 1992; Jensen and Meckling, 1976), may not be significant in SMEs in view of the overlapping nature of ownership and control (Brunninge *et al*., 2007). This overlap is the result of SME owners usually occupying the position of manager of their businesses as well. Consequently, the issue of divergence of managerial interests and the resultant agency costs (Haniffa and Hudaib, 2006) may be very limited or absent in some SMEs. The same applies to issues relating to formal internal control (budget control and audit) and incentivisation (remuneration system), both of which incur additional costs (Jensen and Meckling, 1976).

With respect to the internal operations of companies, agency theory focuses on efficiently written contracts and implementation of effective monitoring and bonding of managers in order to secure the interests of shareholders. However, it also relies externally on efficient market factors, such as managerial labour and corporate control, in order to discipline internal negative managerial behaviours (Fama, 1980; Eisenhardt, 1989). In addition, pressure is consistently being exerted on the firm to remunerate and rank managers according to performance by efficient internal and external managerial labour markets (Fama, *ibid*, p.294). In any case, there is internal competition among top managers regarding who becomes the 'boss of bosses', and there is competition between top and lower managers who anticipate that they could benefit from replacing managers above them who are incompetent. This creates an intrinsic system of monitoring of managers by managers that is both horizontal and vertical. The existing success of a manager determines his or her wages and ability to take advantage of future external opportunities, hence a manager's interest in the performance of his superior and subordinate managers (Fama, *ibid*). This provides managers with incentives which restrain them from expropriating shareholders' wealth.

As a result of the efficient market for trading, corporate control and capital, firms that perform poorly may be acquired by better-performing ones. This offers those with capital (shareholders) an opportunity to hedge against the poor performance of any particular firm. Such hedging is done through the diversification of holdings in other firms. This results in separation of management from control being a form of economic organisation that is efficient in a modern corporation (Fama, 1980). Consequently, there is net reduction in the cost of bonding (bonding, monitoring and residual loss), according to agency theory. This results from the development of the internal structures of corporate governance, which contribute to the improvement of financial performance as well as an increase in a firm's value (Shabbir and Padget, 2005). This has been a strong motivation for a group of empirical researchers whose efforts have focused on attempting to link corporate governance structures to the financial performance of a firm. Their work has been underpinned by the use of econometric models that are based on equilibrium assumptions (Yermack, 1996; Weir *et al*., 2002; Guest, 2009), or the construction of composite corporate governance indices (Henry, 2008; Gompers *et al*., 2003; Chen *et al*., 2009).

The motivation of managers to ensure personal gain is a key issue in agency theory. Managers work to explore and enhance their personal interests and concerns instead of focusing on the shareholders' interests and maximising their value. These personal interests increase costs to the firm through the necessity to organise contracts for the agents; the actions taken to monitor the activities of the agents; and the losses resulting from the agents' actions. All of these impact upon the firm (Leuz *et al*., 2003). The predicament of the theory, therefore, is how to minimise the manager's interests in order to fully pursue the interests of the shareholders. "The goals of the principal and the agent conflict and it is difficult and costly for the principal to verify what the agent is actually doing" (Eisenhardt, 1989, p.58). The inability of the principal to monitor the performance of the agents effectively results in controversy (Jensen and Meckling, 1976).

The management of a firm is motivated to manage its reported earnings so as to achieve earnings targets and thus receive bonuses related to the firm's performance-related earnings. This leaves room for information asymmetry resulting from managers' use of their discretion with respect to accruals, and there is a consequent reduction in the accuracy of reported earnings and the entire financial statement, which introduces earnings management as a form of agency cost (Davidson *et al*., 2005). In effect, there is a need for effective monitoring of managers by the principals or their representatives. This should be the responsibility of the board of directors as it is fundamental to ensuring that shareholders' interests remain uncompromised. Such situations usually arise when managers maximise their self-interest at the expense of the firm's profitability. Such agency costs could be limited by separating the ownership of the firm from its control by developing an appropriate system. It should be one that separates decision management and decision control, thereby allowing control of the management's power and ensuring that shareholders' interests are given proper consideration (Fama and Jensen, 1983).

The extent which the principal and agent conflict exists in SMEs remains to be seen. This is in view of the nature of its composition that results in the overlap of ownership and control. As studies have shown, the focus on personal interests by the managers rather than on those of the shareholders remains a key issue in agency theory (Leuz *et al*., 2003). Furthermore, the noted information asymmetry which leads to the compromise of shareholders' interests (Davidson *et al*., 2005) also comes into play with attendant costs. A separation of decision management from decision control has been considered as a solution to ensure that the power of management is controlled (Fama and Jensen, 1983). How this may reflect the realities in SMEs makes an interesting examination for this research.

4.3 Shareholder theory and firms

Importantly, the firm belongs to the shareholders and their interests, and finds its clearest expression in the doctrine of shareholder value. This requires the company to be run in the interests of the shareholders as well as creating value on their behalf (Chilosi and Damiani, 2007). Shareholder theorists argue that shareholders provide capital for the company managers who should spend the funds in ways authorised by the shareholders (Smith and Jeff, 2003). Friedman (1970) advances this argument, asserting that businesses have one main social responsibility: the use of resources and engagement in activities that increase the firm's profit without deception or fraud. Similarly, Kirkbride *et al*. (2005) point out the re-enforcement of private property rights under shareholder perspective. They are of the view that it supports the principal-agent relationship and clearly separates a firm's ownership and control. In the context of this study one would wish to see how this applies in the case of an SME in which the owner who is the shareholder is also the manager acting as his own agent. However, it is important to note that, while some SMEs have shareholders, some others may have only guarantors (Companies House, 2019). This calls into question the relevance of shareholder theory in certain SME contexts.

The shareholding model of corporate governance is prevalent in the U.S.A., the UK and a host of Commonwealth countries. At the core of this model of corporate governance is the doctrine of shareholder primacy and value (Schwartz, 1983). This suggests that the primary reason for running a firm must be the advancement of the owners' interests. The argument is based on the assumption that the control of the firm is distinct from ownership as in the Anglo-American model (Berle and Means, 1932). It means that the providers of capital (the shareholders/owners) in this model of corporate governance relinquish the day-to-day running (management/control) of the firm. A group of managers, made up of a board of directors and executives that are 'unitary,' and who are frequently not the firms' owners themselves, take up its management. Through a multiplicity of the shareholdings, the ownership in this model of corporate governance is quite often relatively dispersed (Berle and Means, *ibid*).

Dispersed ownership has a major impact on the power of the shareholders to control the way the business is run, which is greatly impaired. This brings about agency problems (La Porta *et al.*, 1998; Blair, 1995; Letza *et al.*, 2004). Agency theory suggests that owing to the need for shareholders (principals) to delegate control of the business to a handful of managers and directors (agents) to manage on their behalf, there is inherent risk. This relates to the managers and directors focusing on their own interests to the detriment of those of the owners (shareholders) (Smith, 1776; Berle and Means, 1932; Jensen and Meckling, 1976). The premise of this is that managers are rational and opportunistic, with the result that there is a higher tendency for them to pursue their own interests instead of those of the shareholders (Weimer and Pape, 1998).

The shareholder model provides several solutions to the problems of agency. There is the suggestion that removal of restriction on the factor markets (e.g. managerial labour, corporate control, capital) will encourage competition (Letza *et al.*, 2004). There is also a call for the introduction of a corporate governance code of ethics and conduct that is voluntary. This is underpinned by universal principles of business, such as accountability, independence, discipline, responsibility, fairness and transparency which are designed to regulate the behaviour of managers and directors (Cadbury Report, 1992; King Report 2002). Furthermore, there is the recommendation that the incentives system for managers should be strengthened, which could be done by creating executive compensation schemes that are performance-linked to help in the alignment of the interests of shareholders and managers (Weimer and Pape, 1998; King Report, 2002). Interestingly, the shareholder model supports the introduction of contracts that are effective in governing the relationship between labour and the owners of capital (Letza *et al*., 2004; Jensen and Meckling, 1976). There are rare situations in which SMEs are run by agents to whom the shareholders have delegated control of the firm.

By contrast, the shareholder model rejects extra obligations towards, and interventions by, external bodies imposed on organisations by government and authorities, such as regulators. As has been pointed out, this is due to the potential for distortion of the operations of the free market (Hart, 1995). The shareholder model perceives the existing arrangements for governance to be the result of a process of bargaining freely, entered into by both corporate outsiders and insiders (Keasey *et al*., 1997). As a rational economic model, the shareholder model assumes that factor markets are very efficient. This efficiency relates to the reduction in divergent managerial activities through self–regulation, which are supported by additional mechanisms. The mechanisms are voluntary, for example, codes of corporate governance that are discretionary (Letza *et al*., 2004; Keasey *et al*., 1997).

There is heavy reliance on free-market regulation and the rejection of external interventions by the government and authorities, such as regulators; these are premised on the major source of finance for the firm being equity rather than debt. The equity (capital) used is expected to be generated from an efficient capital market. In this market capital is assumed to move freely towards investments which offer the greatest risk-adjusted returns (Friedman, 1970). These equity markets are relatively better developed in the U.S.A. and UK than in countries of continental Europe, such as France and Germany (Weimer and Pape, 1998). The implication of this is that shareholders can transfer their capital easily from a company that is poorly run to one which is better governed, or a firm that is poorly run may be acquired by a firm that is governed better through the efficient corporate control of markets. In such circumstances managers who have performed poorly could be dismissed and replaced with a competent team, thereby constraining managers' use of discretion.

The applicability of the solutions to agency issues, which the shareholder model proffers (Letza *et al*., 2004), remains to be seen in relation to SMEs. These solutions, namely, transparency, accountability, discipline, among others (Cadbury Report, 1992; King Report, 2002) as well as the introduction of contracts in order to ensure effective governance between the owners of capital (shareholders) and the labour (managers) need to be examined in SMEs. An important attribute of shareholder theory, which appears to be reflected in SMEs, in the view of the researcher, is the burden of risk being borne to a great extent by the shareholder. In the view of some scholars, this makes the maximisation of shareholders' value an imperative (Friedman, 1970; Sun *et al*., 2002). Furthermore, the finding that organisations that prioritise the maximisation of shareholders' wealth in their governance perform better (McSweeney, 2007) may serve as a pointer for SMEs.

Shareholdership is premised largely on the principal-agent model's conviction that corporations should maximise shareholder wealth. This is based on the fact that they own the corporation and bear the highest risk. Consequently, this has given rise to an agency problem of managers pursuing their own short-term interests alongside shareholders' long-term objectives (Jensen and Meckling, 1976; Manne, 1965; Friedman, 1970; Sun *et al*., 2002). Consistent with this position, research has found examples of companies whose focus is mainly on maximisation of shareholder wealth and is the core of their corporate governance. According to McSweeney (2007), such companies have been noted to perform better than those who also acknowledge the rights of other interest groups.

The observed superior performance of companies that focus on maximising shareholders' value is not only in terms of shareholders' wealth. Other areas of positive performance are corporate growth, better returns for employees, and welfare and economic benefits for the society at large. Bughin and Copeland (1997), in furtherance of McSweeney's (2007) argument, posit that the 'rising tide lifts all boats' and that the focus on maximisation of shareholders' wealth is a virtuous cycle. They go on to argue therefore for the maximisation of the wealth of the shareholders, which is justified on the basis of their ownership, as well as economic efficiency and broad social benefits.

Directors are the people who should be the shareholders' initial line of defence, but the fact that they may have defects is a demonstration of the lack of real shareholder power (Denis and McConnell, 2003; Brennan, 2006). Since executive directors are managers as well, they are less inclined to criticise, recognise or correct their errors. Also, the non-executive directors' accountability is usually impaired as a result of the means of their nomination, appointment and remuneration (Kakabadse and Kakabadse, 2001; Sternberg, 2004). The appointment procedure in the Anglo-American model is such that most non-executive directors are nominated by the chief executive officer or the board of directors. This results in them being insufficiently independent of the management, and insufficiently accountable to the shareholders (Vinten, 2001; Sternberg, 2004).

In Anglo-American firms there has been a proliferation in the development of codes of good corporate governance practice with a resulting improvement in the procedures for appointment to boards of directors (Aguilera and Cuervo, 2009). There is a requirement for listed companies to establish nomination committees that are independent according to the UK's Combined Code of 2006 and the King II code. There is further requirement for independent non-executive directors to constitute and head these independent nomination committees. These requirements have impacted positively on independence, accountability and monitoring of senior management and executives (Filatotchev and Boyd, 2009).

The Anglo-American shareholding model is further perceived to be flawed because of its supposed fixation on short-term financial performance, which includes corporate profits that are short-term, returns on investment that are short-term as well as short-term expenditure and short-term management performance. The existence of an efficient capital market and the huge reliance on it gives rise to these, and puts pressure on managers (Keasey *et al*., 1997; Blair, 1995; Letza *et al*., 2004; Kakabadse and Kakabadse, 2001). There is a preference for a higher short-term return to a lower one in this model of corporate governance. Comparatively speaking, a lower share price, for example, could make an organisation more vulnerable to a takeover bid. The market pressure from investors and competitors leads managers to prefer shorter-period payback investments as a way of boosting short-term profits. Such means are preferred instead of activities relating to research and development expenditure, for instance, which involve long-term capital investment (Blair, 1995; Keasey *et al*., 1997).

Research suggests that the financial crisis (i.e. the one referred to as the 'credit crunch') was caused partly by risk-taking behaviour that was reckless. This was associated with the short-term bonus culture that is pervasive among executives of major financial institutions, particularly in the U.S.A. and UK (Walker, 2009; Turner, 2009; Farrell, 2009; Keller and Stocker, 2008). On the basis of such experience stakeholder theorists have criticised the shareholder model for ignoring the ethical, social and moral responsibilities of the firm as an important institution in society, as well as for offering a narrow definition of those that constitute the stakeholders of an organisation (Kakabadse and Kakabadse, 2001; Blair, 1995).

The stakeholder theorists argue that instead of running the corporation primarily to maximise the value for shareholders, it should also serve the overall interests of a wider group of stakeholders (Sheikh and Chatterjee, 1995; Berle and Means, 1932). This group may include creditors, suppliers, employees, customers and the local community. They have a long-term relationship with the organisation, and consequently impact on its long-term success. This has led to questions about the Anglo-American model's emphasis on the rights and powers of the shareholders, which neglects the interests of legitimate stakeholders (Blair, 1995).

An interesting perspective in shareholder theory in the non-SME sectors is the tendency for directors, who should defend shareholders' interests, to be defective (Brennan, 2006; Denis and McConnell, 2003). There is the added dimension that they are also managers and may not be willing to recognise or be critical of their errors (Sternberg, 2004). These perspectives result in the central question as to whether the perspectives are also applicable to SMEs in view of the overlap of ownership and control. Furthermore, it may be interesting to examine the risk-taking recklessness noted in the Anglo-American shareholding model as a result of the model's fixation on short-term financial performance (Walker, 2009; Letza *et al*., 2004).

In the view of the researcher, this is an important juncture where issues relating to stakeholders begin. In addition, it may be interesting to determine whether this risk-taking applies to SMEs.

It is important to note that Anglo-American companies also contribute and participate in social development as much as their counterparts in stakeholding countries. Like firms operating in stakeholding countries, those in shareholder-oriented countries create employment for local communities and pay corporate taxes. There has been a notable increase in activities relating to corporate social responsibility, particularly in relation to customers, local communities, employees and the environment, over the last decade (West, 2009). Since shareholders are also stakeholders, it is argued that the maximisation of shareholders' value results in maximisation of societal value (Jensen, 2002). Stakeholder theorists also question the capacity of the shareholder model to give serious consideration to moral and ethical issues. This could relate to encouraging excessive, or sometimes 'obscene', executive remuneration (Sternberg, 2004).

The average chief executive officer (CEO) of a medium-sized firm in the U.S.A. earns a package that is 531 times more in terms of salary, stock options and bonuses than that of the average worker in the factory. Good corporate governance, according to the arguments, is supposed to empower the weak members of society (Kakabadse and Kakabadse, 2001). Further strengthening of the rich and powerful (shareholders and managers) in society constitutes another area for which the shareholding model is criticised for being 'unethical' (Bradley, 2010; Turner, 2009). A classic example is the 'credit crunch' financial crisis in the global financial market. Banks were in receipt of billions of pounds from the British government in bailout, which was done because of the reported record losses running into billions of pounds of some major banks in Britain. However, executives were still reported to have paid themselves bonuses worth millions of pounds. Such bonuses might arguably, have resulted in the transfer of wealth from ordinary taxpayers to rich bank executives (Walker, 2009; Keller and Stocker, 2008).

4.4 Stakeholder theory

Stakeholder theory was conceptualised over 60 years ago by Mary Parker Follet and re-emerged later in the 1980s (Schilling, 2000). The stakeholder model of corporate governance is largely found in countries such as Germany, France, Japan and Asian countries. The maximisation of the welfare of stakeholders, instead of the shareholders, is the central assumption of this model. It suggests that firms should inclusively pursue the identifiable interests of stakeholders - entities who may be affected directly or indirectly, or can impact on the success of the firm (Blair, 1995). Stakeholder theorists are of the opinion that an organisation consists of social groups which provide important resources and expect their interests to be catered for in return (Jensen, 2001; March and Simons, 1958; Hills and Jones, 1992).

This theory came to the fore in the 1980s and 1990s reflecting societal concerns about large corporations that were becoming very powerful and lack accountability to stakeholders, including government. Metcalfe (1998) defines stakeholdership as any individual or group who can affect, or is affected by, the achievements of the organisation's objectives. He notes that the organisation should be managed for the good of, and be accountable to, all the stakeholders. Furthermore, Donaldson and Preston (1995) define it as being identifiable through the actual or potential harms and benefits that stakeholders experience or anticipate experiencing as a result of the firm's actions, or inactions. These fundamental issues related to stakeholder theory in large corporations are at variance with the nature of SMEs, leading the researcher to question the theory's relevance to SMEs. While it is noted that concerns about large corporations and the issue of lack of accountability have resulted in the re-emergence of stakeholder theory (Metcalfe, *ibid*), SMEs are reported to be a source of stability in the economy (Gibbs, 1994). In addition, SMEs' role in recovery in the aftermath of natural disasters and conflicts are well documented (EC, 2003; 2004).

Besides the primary function of the firm, namely, maximising profit for the investors, stakeholder theory requires that businesses consider the interests of parties affected by their activities. This includes individuals, organisations or people who are affected by the decisions, policies, actions, practices or objectives of the organisation (Gibson, 2000). It further posits that societies and organisations are interdependent, hence the organisation serves a broader social purpose, which goes beyond its responsibilities to shareholders (Kiel and Nicholson, 2003). In defining stakeholder theory, Clarke (2004) notes that corporations consist of multilateral agreements between enterprise and multiple stakeholders. He points out that the relationship between internal stakeholders and the corporation is structured according to formal and informal rules. Such rules are developed over the course of a firm's history. Furthermore, although shareholders provide funds, they rely on employees to achieve the productive organisational purpose. Clarke (*ibid*) notes the importance of external stakeholders, pointing out how they are constrained by formal and informal rules, which must be respected by the business.

While shareholders supply the capital with an expectation of maximisation of risk-adjusted returns, creditors provide loans with an expectation of being paid on time. The local community provides infrastructure and location with the expectation of improved quality of life. For their part, employees and managers give their time and skills and expect to be adequately remunerated (Jensen, 2001, 2002; Hill and Jones, 1992). The stakeholder model posits that the problem of governance arises from the lack of broad stakeholder participation in the management of the corporation (Letza *et al*., 2004). It subscribes to the concept of separation of control and ownership being a source of governance problems in public firms, which is in agreement with the shareholder model. It further agrees with its assumption that agency conflict that may result could be reduced by the organisation through a nexus of contracts. These contracts are drawn up between the stakeholders of the firm in the belief that the organisation will be managed rationally according to terms that are economic so as to maximise its wealth (Keasey *et al*., 1997; Jones and Hill, 1992).

Stakeholders are individuals or groups with legitimate interests in the substantive and/or procedural aspects of corporate activities (Donaldson and Preston, 1995). They should be considered in relation to the structure of governance and will include: managers, employees, customers, investors (including banks), business partners, such as suppliers and subsidiaries, local communities, the natural environment and civil society (including pressure groups and regulators) (Wheeler and Sillanpaa, 1997). In their study, Mitchelle *et al*. (1997) point out three attributes whereby stakeholders could be identified: the legitimacy of relationship with the organisation; power to influence the organisation; and the urgency with which they make a claim on the organisation.

The stakeholder model rejects the notion of managers and shareholders being the only important participants in a corporate relationship (Blair, 1995). While this model also believes in assumptions concerning the efficiency of the market, it takes cognisance of the short- and medium-term inefficiencies (Fama, 1980). This gives rise to the notion of occasional external intervention and possible statutory legislation. These are meant to create equilibrium which will result in maximisation of the broad wealth of society (Weimer and Pape, 1998; Hill and Jones, 1992).

Several solutions emanate from the stakeholder model, such as the proposal of a two-tier structure for the corporate board, with the aim of broadening representation of the larger stakeholder groups' interests (Schilling, 2001). In Germany, for instance, a governance framework would normally have a dual board structure (management board and supervisory board), the supervisory board being made up of stakeholders (creditors, shareholders, employees, suppliers, customers and the broader societal segment represented by government appointees) (West, 2009; Schilling, 2001). This context mandates the management board to manage the firm in the best interests of the stakeholders, which implies that the shareholders' interests should be pursued only to the extent that they are not considered detrimental to other stakeholders' interests (Schilling, 2001).

Maximisation of investors' profit together with consideration of the affected parties' interests (Gibson, 2000) need to be a feature of the SME sectors. The researcher is of the view that this will result in SMEs serving a broader social purpose, an idea envisaged by Kiel and Nicholson (2003). Shareholders, including those in SMEs, supply the capital, expecting maximisation of returns that is risk-adjusted, while the local communities provide location and infrastructure (Jensen, 2002). Consequently, the researcher argues that stakeholders have legitimate interests in corporate activities in SMEs. Consequently, in line with the views of Blair (1995), the researcher is of the view that SME owners and managers are not the only important participants in the corporate relationship.

The stakeholder model nurtures trust-building among corporate management along with long-term contractual relationships between the organisation and its stakeholders (Letza *et al*., 2004). It promotes inter-firm co-operation as well as cross-shareholding, as in Japan. This is done with the participation of employees in decision-making through the firm's supervisory board, as in Germany. It encourages a close relationship between managers, shareholders, suppliers, employees and creditors, as well as the integration of business ethics as a means of attaining a balance of the interests of all stakeholders (Rwegasira, 2000).

It is worth noting that currently there seems to be no corporate governance system that is either purely stakeholder-oriented or entirely shareholder-oriented. As a result of increased trade liberalisation, globalisation and the integration of stock markets through cross-listing, there seems to be a convergence of corporate governance systems (Filatotchev and Boyd, 2009). Japan, a country favouring a traditional stakeholder system, operates a stock market that is as developed as those of the U.S.A. and UK, where the shareholder model originated (Hawley and Williams, 1996; Weimer and Pape, 1998). The emergence of powerful global institutional investors, in addition to increased investor activism, seems to have catalysed the convergence of corporate governance models. This convergence tends particularly towards the Anglo-American system (Aguilera and Cuervo-Cazurra, 2009).

Furthermore, the proliferation of both national and trans-national corporate governance codes seems to have contributed to the convergence, as indicated in a review. This involved 196 distinct codes originating from 64 countries, which identified six recommendations common to all the codes of governance, irrespective of governance model (Filatotchev and Boyd, 2009; Aguilera and Cuervo-Cazurra, 2009). These commonalities include separation of the positions of chairman and chief executive officer; a balance in the board composition between executive and non-executive directors; provision of good, relevant and timely information to the board of directors; comprehensive, objective and comprehensible financial reports; appointment of new directors through transparent procedures; and an internal control system that is effective. As a result of this convergence, the criticism of either model may not be restricted to that individual model alone (Aguilera and Cuervo-Cazurra, 2009)

As a form of extension to agency theory, stakeholder theory expects the board of directors to promote shareholders' interests. However, this focus on shareholders, which is considered narrow, has been broadened to consider the interests of various groups of stakeholders. This includes those related to environmental, social and ethical considerations (Freeman *et al*., 2004; Freeman, 1984; Donaldson and Preston, 1995). Stakeholder theory has less impact on policy-making and thinking about corporate governance than agency theory, despite having more practical implications, intellectual appeal and historical roots (Blair, 1995).

Schaefer (2007) defines the stakeholders of a corporation as those persons vital to the continued survival and success of the corporation. Metcalfe (1998, p.32) presents the stakeholder theory thus: "A stakeholder is entitled to consideration in some ways similar to shareholders. Stakeholders may thus include employees, customers, shareholders, the state, the local community, society, bankers, special interest groups, the environment and technological progress." Based on the foregoing, Figure 4.1 below shows the stakeholders of a firm as presented by Nwanji and Howell (2007a) whose views are consistent with those of Metcalfe (1998). Furthermore, Elias *et al*. (2000) highlight a characteristic of stakeholdership, namely, the dynamics of stakeholders over time. They note that the mix may change as new stakeholders join, while existing ones may cease to either be a part or be active. Consequently, this study modifies Nwanji and Howell's (2007a) model slightly in order to represent any anticipated or unanticipated change, represented by Y in Figure 4.1. Freeman (1994) sustains this argument by noting that stakeholders change from time to time, and likewise, the stake they have in the corporation, depending on how strategic is the issue that is under consideration.

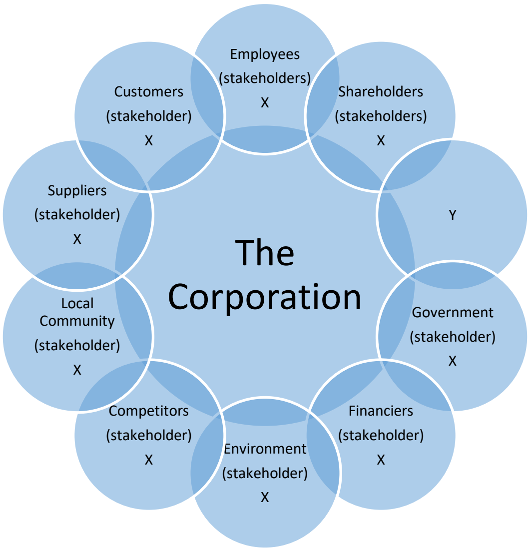

Figure 4.1: A diagram of the stakeholders of an organisation (Source: Nwanji and Howell, 2007a, p. 19)

Such individuals or organisations (stakeholders) participate in the process of governance of corporations, otherwise known as internal democracy. According to Matten and Crane (2005 p.6), it "chimes well with current demands for greater corporate accountability and offers a compelling evaluative framework for assessing corporate responsibilities to organisation." "Democracy is a system of government or organisation in which the citizens or members choose leaders or make other important decisions by voting'' (HarperCollins, 2004, p. 238), it implies "a form of government in which people rule" (Jong and Witteloostuijn, 2004, p. 55). Being a pluralistic model (Olsson, 2003), its vital quality is the assumed participation of citizens in public decision-making. This participation is direct and operates through their association “empowering and encouraging people to engage meaningfully in collaborative tasks that constitute social life on a daily basis” (Goodin, 2003, p.3).

As an ethical theory of corporate governance, the stakeholder concept is an incoherent and implausible guide to how organisations do or should act. Due to the rapid changes of the twenty-first century, increased scrutiny by watchdogs and unprecedented competition, fund managers and institutional investors will seek to monitor corporations closely (Gregg, 2001). Interestingly, Schaefer (2007) points out that shareholders have no duty to direct the management of their companies to exercise social responsibility. Furthermore, Sternberg (1996) argues that the theory of the stakeholder is misguided and mistaken, and its idea of accountability unjustified. This is based on the fact that it largely undermines notions of private property, agency and wealth, which is not logically compatible with business and the concept of corporate governance itself. The researcher is of the view that this ethical perspective would make an interesting examination in the course of this research into SMEs. In addition, it would provide an opportunity to ascertain the extent to which the reality of SMEs is reflected in the stakeholder theory.

4.4.1 Descriptive, instrumental and normative aspects of stakeholder theory

Based on the realisation that there are various ways that stakeholder theory could be utilised, a framework that enables one to summarise the stakeholder concept has been developed by Donaldson and Preston (1995). This framework consists of descriptive, normative and instrumental elements of stakeholder theory. It helps in understanding various facets of the theory and goes further in enabling these facets to be classified.

The descriptive element holds that stakeholder theory is descriptive in nature. It expounds the notion that the corporation is a gathering of interests that are competitive and cooperative, and have intrinsic value. It also lays out the instrumentality of the stakeholder theory as constituting an analytic framework. Furthermore, it analyses the relationships between stakeholder management practices and the attainment of corporate performance objectives. In addition it posits that the core of the stakeholders' theory is normative and that it is based on the idea that "stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity" and that "the interests of all stakeholders are of intrinsic value (Donaldson and Preston, 1995, p. 67). Figure 4.2 below is a model reflecting the three aspects.

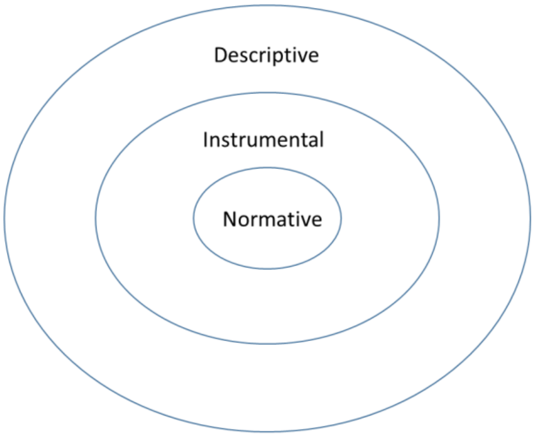

Fig. 4.2: Aspects of stakeholder theory (Source: Donaldson and Preston, 1995, p. 74)

Consistent with the position of Freeman (1994) is the claim that the normative element is central to the stakeholder theory. Donaldson and Preston (1995) are of the view that the three aspects are mutually supportive as well as intertwined. They believe that analysing each aspect as well as their interrelations would result in awareness of the theoretical approaches. It could be anticipated that this would engender rigorous reasoning and analysis involving the stakeholder concept.

The work of Ian Mitroff and Richard Mason (1981) is a widely referenced work in the area of instrumental use of the stakeholder concept. They highlight the need to place emphasis on the assumptions made by managers. They consider that such assumptions, to a large extent, define the direction and consequently the outcome of strategic decision-making. They have examined a firm’s decision-makers’ assumptions regarding how stakeholders could be identified and possibly questioned. This has led to the development of the strategic assumption surfacing and testing (SAST) method, used at the stage of problem formulation when considering the process of decision-making and planning. The stakeholder concept is central to this method as the assumptions of managers are pitched against those of a wide range of stakeholders.

There is a range of approaches that relate to stakeholder analysis in strategic management. The stakeholder concept was used by Freeman (1984) to examine an organisation’s external environment. He explored how multiple relationships between a firm and stakeholders could be managed. This was aimed at assisting managers in setting direction, strategic programming and implementing and controlling strategic direction. Mitroff and Linstone (1993) also developed the approach referred to as ‘unbounded systems thinking.’ This recognises the interconnections as well as complexities of problems in business, a similar context referred to as ‘messes’ by Ackoff (1974) as he sought to manage them. They recommend that multiple perspectives be used in practice: personal, organisational and technical. Each business problem was approached differently from each perspective, which enabled a view of the complexity to be presented that was more comprehensive. This resulted in the perception of the organisation as a set of relationships that existed within the organisation itself as well as with its stakeholders. Stakeholder analysis was utilised to unveil assumptions about the behaviour of organisation’s stakeholders.

4.5 Institutional theory

The separation of ownership and control is argued to have given rise to agency problems, which is at the heart of corporate governance issues. As a result, corporate governance research has traditionally been underpinned by agency theory (Jensen and Meckling, 1976). Consequently, corporate governance has become one of the ways shareholders seek to ensure the maximisation of the return on their investments (Shleifer and Vishny, 1997). Significantly, conventional agency theory (Fama and Jensen, 1983) does not fully cater for the effects of institutions on corporate governance. However, through actions, such as corporate control by the market, contractual incentives, and approaches to disclosure, that are market-oriented, agency problems could be addressed. A limitation of agency theory has been noted as its inability to account for institutions’ influence on corporate governance resulting from cross-borders differences (Aguilera and Jackson, 2003).

4.5.1 Nature of institutions

Present day institutionalism differs from the early institutional paradigm. However, recently scholars have been motivated and inspired by the works of pioneers in the area (Scott, 2009).

In commencing a study, it is important to define the nature of the institution on which it is focused. Barley and Tolbert (1997) are of the view that basing a study on a set of related definitions of institution is important in order to establish the links that exist between institutions and the key players. In addition, the conceptualisation of institutions as well as the perception of the institution at the point of commencement of the research is important. This is because “the malleability of an institution can vary with the grain of analysis” (Dillard *et al.*, 2004, p. 512). There is a variety of definitions of institution anchored in different disciplines, starting from early to new institutionalism, otherwise referred to as neo-institutionalism. In launching a research study based on a particular group of definitions of institution, it is essential to build the linkages between the activities of key actors and institutions (Barley and Tolbert, 1997).

Stinchcombe (1968, p. 107) offers a definition of institution as “a structure in which powerful people are committed to some value or interest”. In this perspective, value and interest are protected only by those with power, and the perspective itself is focused on the role of agency and power. Furthermore, Hamilton (1932, p. 84) provides the following perspective on an institution:

> Institution is a verbal symbol which for want of a better describes a cluster of social usages. It connotes a way of thought or action of some prevalence and permanence which is embedded in the habits of a group or the customs of a people. In ordinary speech it is another word for procedure, convention, or arrangement; in the language of books it is the singular of which the mores or the folkways are the plural. Institutions fix the confines of and impose form upon the activities of human beings. The world of use and wont, to which

> imperfectly we accommodate our lives, is a tangled unbroken web of institutions.

Institutionalists used Hamilton (1932) definition as a basis for description, examination, analysis and theoretical evaluation. It is central to studies in social sciences that focus on behaviours that are socially conditioned and whose nature is repetitive (Hamilton, 1994). Furthermore, Jepperson (1991, p. 145) is of the view that "depart[ing] from the pattern are counteracted in a regulated fashion, by repetitively activated, socially constructed, controls - that is by some set of rewards and sanctions". This definition, in the opinion of Philips *et al*., (2004) considers power in the form of control that is repeatedly activated. This feature, they note, creates the distinction between institutions and other social constructions.

4.5.2 Forms of institution

There are different forms of institution. In every society the family institution exists and has different impacts due to its distinctive nature in different societies. In his view, Leaptrott (2005, p. 218) regards the family as "an organisation that has an identifiable structure" and varies contextually from one society to another (Kertzer, 1991). Radcliffe-Brown (1941) highlights the kinship institution when he refers to the elementary family consisting of wife, husband and children, which creates three other orders of relationship, the first order being the relationship between parents and children and that between siblings; the second order involving a relationship between the elementary members of a family through, for instance mother's sister and father's brother; and the third order involving such relationships as father's sister's daughter and mother's brother's wife. The bureaucratic state is conceptualised by Weber (1978), positing a view of bureaucracy in which he places authority at the centre of the process of organisation.

In addition, different views of religion by early scholars have presented it as an institution. For example, Durkheim's (1858 -1917) view is one of symbolic functionalism, which perceives religion as a social act that is selective; Weber's (1864/1920) is of a system focused on ordering the world (Bowie, 2006); and Max (1818 – 1883) believes that religion is a structure that is variable and is driven by economics. One point of agreement is that things that are happening are explained by religion, as well as the reasons they are happening and the consequences.

Another form of institution, the market institution, has been discussed by theoretical schools. The neo-classical economists argue that it is one of economics' central categories. They are of the belief that the market has substitutes, such as other non-market institutions like the state. However, some perspectives consider that the state complements the market. This happens particularly when the market is incomplete and the state assists in advancing it (Aoki, 1996). Furthermore, political institutions have been discussed in political science literature. Attributes include the capacity of such institutions to influence the behaviour of people, their durability, and their inherent legitimacy (March and Olsen, 1989; 1984; Peters, 2010). Besides political institutions, legal institutions have also been identified on the basis of how they influence the behaviour of individuals, the social norms and legal behaviour that certain institutions embody and the legitimisation of characteristics that are inherent in these institutions (La Torre, 2010).

4.5.3 Neo-institutionalism

A number of theories underpin the neo-institutional theory, such as agency theory, games theory, property rights theory and transaction cost theory. In addition, there are several approaches to the theory. Neo-institutional theory in sociology is better suited to the study of firms (Dimaggio and Powell, 1983). It is argued that it focuses on institutions that shape the structures and systems of organisations, which is the area of interest of this research. According to this theory, cognitive frameworks are highlighted over normative frameworks (Scott, 2009). Other areas of neo-institutional theory relate to economics and political science. The notion of individuals being autonomous in their action has been identified as the political science perspective of neo-institutional theory. This autonomy is based on their calculated personal utility that is rational or by way of 'socio-psychology' characteristics (Peters *et al*., 2005). In economics, neo-institutional theory employs the framework and structures with which economic transactions are governed (Williamson, 1991).

The way firms function as well as the ways that they change is the focus of neo-institutional theory. In relation to neo-institutionalism there are two key lines of thinking in terms of organisational analysis: the micro-sociological, relating to how internal initiatives and external pressures are handled by a firm's employees. In that respect, as a result of organisations' need for legitimisation from the institutional environment, routines within organisations are separated from technical processes (Meyer and Rowan, 1977). This line of thinking may be relevant to SMEs. However, this research is not focused on how employees of SMEs handle internal initiatives and external pressure.

The second line, macro-sociological, posits that organisational form is more a reflection of institutional pressures and less one of efficiency. This situation results in firms within the same organisational field appearing similar. This perspective concludes with a belief in the possibility of enhancing the influence of institutional pressures (Boons and Strannegard, 2000). The increasing similarity between firms in one organisational field is perceived to be an outcome of three mechanisms: normative (becoming a practice that is accepted); coercive (the demands of customers, regulators and suppliers); mimetic (implementation by all the players in the organisational field) (Dimaggio and Powell, 1983; Boons and Strannegard, 2000)). Instructively, these mechanisms usually overlap (Boons and Strannegard, *ibid*). The researcher is of the view that this line of thinking appears more relevant to SMEs. This is in view of the similarities which SMEs are noted to share in certain areas, such as their strengths, that is, flexibility, centralised decision-making and high commitment of the owner and manager who tend to be one (Acs *et al*., 1997; Carson *et al*., 1995), and weaknesses, namely, lack of sufficient resources and difficulty in strategic planning (OECD, 2000; Hogarth-Scott *et al*., 1996).

A distinction between a firm's institutional and technical demands is established by neo-institutional theory. The institutional demands concern things such as an organisation's structure, its ideology and the processes that it adopts in its quest for legitimacy. The technical demands of the environment relate to physical outputs, such as profit, products and services: importantly, these two demands need to be managed effectively (Boons and Strannegard, 2000). The researcher believes that this is a difficult task considering that it is not every institutional demand that impacts positively on technical demands. While Boons and Strannegard (*ibid*) emphasise that a clear difference exists between the institutional and technical demands according to neo-institutional theory, they go on to highlight two structures that are separate: the formal structures of the firm, which are visible, and actions that are carried out within the firm. Meyer and Rowan (1977) point out that these actions within these firms may be coordinated in ways which are different from the structures of the organisation. However, there appears to be some confusion in the effort to distinguish between the institutional and technical environments. It is argued that the social world and the technical world are interrelated; consequently, to perceive the social world as being isolated from the technical world is difficult (Joerges and Czarniawska, 1998; Boons and Strannegard, *ibid*).

4.5.4 Institutional theory and corporate governance

The deeper and more resilient parts of the social structure are also an area of focus of institutional theory, in view of how structures (rules, norms, schemas, routines) are established as guidelines that are authoritative when it comes to social behaviour (Scott, 2008). A firm's behaviour as well as the responsibilities and structures of stakeholders is entrenched in the values by which it abides as well as the social, political, cultural, economic and legal environments. Therefore a reflecting on the broader perspective of the institutional domains is necessary in corporate governance debates (Aoki, 2001).

Applying the institutional theory in the examination of a firm's corporate governance could be premised on the assumption that internal processes of operation that are loosely coupled with observable structures represent an organisation's real work (Yazdifar, 2003). Consequently, firms that have appropriate structures that are functional can avoid situations in which external parties investigate their functions in-depth (Meyer and Rowan, 1977). Institutional economics appears focused on the study of economic phenomena that are within the entirety of a firm's surrounding environment, and include cultural, social, political and similarly related factors.

The activities of organisations are subject to rules and regulations, and their legitimacy is derived from their adherence to such rules (Barreto and Badden-Fuller, 2006). This consequently offers them access to resources upon which they depend (DiMaggio and Powell, 1983). Based on institutional theory, the fundamental role of corporate governance is to ensure that a firm is properly linked to its environment. This is achieved through clarity in the definition of its goals, which should align with the expectations of the environment (Judge and Zeithaml, 1992; Barreto and Badden-Fuller, 2006). This theory therefore carries the assumption that the goal of corporate governance should entail the definition of a firm's goals, which should be in the context of both its existing value system and its environment.

The adoption of change or its rejection, according to institutional theory, should be studied in relation to social, political and historical issues. Such change or rejection should be founded on an understanding of the resulting changes in the firm's complexity (Cohen *et al*., 2003). Therefore the success of a new system based on corporate governance recommendations will be dependent on the similarity between the firm's existing systems and the new system (Yazdifar, 2003; Kalbers and Fogarty, 1998). Organisations tend to take on similar features as a result of institutional pressure, consequently organising themselves in ways that are similar to those of other organisations in the same environment (DiMaggio and Powell, 1983). This process, referred to as 'isomorphism', is premised on the assumption that firms adopt management structures and practices which are perceived to be legitimate. They also espouse ones that are considered socially acceptable by organisations that are similar, irrespective of their effectiveness or otherwise (Saudagaran and Diga, 1997).

The separation of routines from technical processes due to internal initiatives and external pressures in order to achieve legitimacy (Meyer and Rowan, 1977), as well as the organisational forms' reflection of institutional pressures (Boons and Strannegard, 2000) are ideas that may need to be examined in the context of the realities of SMEs. In the view of the researcher, this may provide an opportunity to examine the nature of interconnectivity between the institutional and the technical environments in the context of SMEs. This is in light of the view of Boons and Strannegard (2000) that there appears to be confusion when it comes to differentiating between institutional and technical environments.

Institutional theory in the context of SME governance may offer an opportunity to understand its internal processes of operation, how they are coupled and how they reflect the organisation's work (Yazdifar, 2003). As Meyer and Rowan (1977) point out, organisations whose structures are appropriate and functional may avoid situations resulting in investigation by external parties. Such structures that are functional and appropriate may avail such organisations of resources (DiMaggio and Powell, 1983).

4.6 Conclusion

Corporate governance is underpinned by a range of theories of which agency, stewardship, shareholder, stakeholder and institutional theories are the focus of this study. Organisations are managed on a daily basis by agents resulting in a differentiation, as well as potential conflict, between themselves and the owners (Eisenhardt, 1989). Information asymmetry and conflict of interest are two key issues that adversely affect this relationship, and agency theory is largely focused on reconciling the conflict between the principal's and agents' interests (Fama, 1980; Jensen and Meckling, 1976). Consequently, procedures relating to cost monitoring, contractual agreements and budget restrictions, among others, are used to manage such situations.

Managers' motivation to achieve personal gain is a key issue in agency theory. This motivation leads to a conflict between the goals of the principal and those of the agent. A set of board structures could be instituted in order to monitor the behaviour of managers (Fama, 1980). Independent non-executive directors could be appointed and financial audits arranged by independent auditors. A remuneration system that incentivises managers would be helpful in aligning their interests with those of the shareholders. In addition, minimum managerial shareholding could also be instituted (Eisenhardt, 1989; Jensen and Meckling, 1979). Agency theory relies on market factors that are efficient, such as managerial labour and corporate control, as means of disciplining managers who behave negatively (Fama, 1980).

There is no disputing the fact that firms belong to the shareholders, and this is clearly expressed in the form of shareholders' value. As Friedman (1970) argues, a key social responsibility of businesses is the utilisation of shareholders' funds to increase profit and enhance value. Consequently, corporate governance relinquishes the management and control of the firm to the managers who are not usually the firm's owners. Due to the dispersed ownership of the firm, the power of the owners to control its running is usually impaired, which agency theory highlights as its inherent risk (Letza *et al*., 2004; Jensen and Meckling, 1976). The shareholder model calls for, among other things, a voluntary corporate governance code of ethics underpinned by universal principles (Cadbury Report, 1992; King Report, 2002). It also encourages contracts in order to manage the employee and owner relationship.

The stakeholder model of corporate governance emphasises enhanced welfare of the stakeholders. This is based on the fact that a firm consists of social groups who provide it with critical resources, hence the expectation that the groups' interests will be taken care of (Blair, 1995; Jensen, 2001). For instance, shareholders provide capital, while creditors provide loans, and the community provides location and infrastructure. All of these stakeholders have expectations and the stakeholder perspective posits that governance problems arise as a result of a lack of broad participation of stakeholders (Letza and Sun, 2004). This model favours long-term building of trust, promotes co-operation and encourages closer relationships as well as integration of business ethics. For its part, institutional theory focuses on the workings and structures of an organisation. It seeks to identify what works best and will be perceived in the best light in relation to the firm's performance.

The next chapter will focus on the concept of sustainability and how it relates to organisations, specifically SMEs. It will examine a range of issues relating to corporate sustainability beginning with its background, consider approaches to sustainability, and explore strategies for SME sustainability.

Part 4: Philosophy, Methodology and Data Collection

Chapter 5

Methodology of the research: Philosophical, axiological, ontological and ethical perspectives

5.0 Introduction

This research is a multi-disciplinary study hence the need to set out an appropriate philosophical perspective to underpin it. It explores the areas of corporate governance, strategic management and sustainability with respect to SMEs. This chapter therefore aims to explore ontological, epistemological, philosophical and axiological perspectives that pertain to this study. It will explore each of these key concepts with a view to situating this research within the appropriate spheres. It will also examine how they impact on the research approach, the methods and participants, as well as the researcher.

An examination of the ontology underpinning this study as well as the issues relating to it will be carried out. This will enable the researcher to determine the nature of reality in the context of this study, as well as exploring ways in which it could be studied. In addition, this chapter will analyse epistemological issues relating to the research. Due to the multi-disciplinary nature of the study, it was imperative to ensure that the research used a theoretical framework that could be justified. In determining the appropriate paradigm to inform this research, there was an examination of the relevant philosophical approaches in order to ascertain which perspective would align appropriately with the focus of the study. This chapter will examine the concept of axiology before determining whether this study has been influenced by any particular value, as well as the extent to which this is the case. It will conclude by exploring ethical issues concerning the research.

5.1 Ontological perspective

A researcher's perception of what constitutes knowledge has an influence on the choice of a research study's philosophy, methodology and methods (Schwandt, 2001). Ontology is the field of study concerned with the nature of being (Effingham, 2013). Heidegger (1962) notes that 'being' is not similar to being. Instead the things that determine that being is being, those things are already understood as being. Ontologically, the nature of being, as well as the ways of understanding it, influences research decisions (Charmaz, 2006). As Heidegger (*ibid*) argues, fundamental to ontology is the understanding which precedes any way whereby we develop knowledge. Such instances could be theory or the use of logic.

A scheme of four distinct levels of being, which overlap, are perceived ontologically: materials consisting of objects that are non-living, such as sand, stones, water; animals, consisting of things that live and have consciousness; vegetables, consisting of plants; and human beings, which represent the highest level, with their sense of reasoning, awareness, exchange of meaning and consciousness, as well as other attributes, which do not apply to other groups (Thomas, 2013; Bryman and Bell, 2007; Crotty, 1998). There are epistemological implications associated with each level of the ontological scheme and each level has an appropriate method of study, epistemological and methodological positions (Bryman and Bell, 2007; Morgan and Smircich, 1980). Ontology has two broad classifications: realism, which argues that reality exists, although we have limited knowledge of it due to our limitations (Wisker, 2008; Crotty, 1998); and subjectivism, which holds that only phenomena that are observable are real (Thomas, 2013).

5.1.1 Realism and objectivism

A dominant approach in research is realism (Maxwell and Mittapalli, 2010; Sayer, 2000) and the word ‘real’ refers to things that are in the universe (structures, forces), which bring about phenomena that we perceive, such as institutions, society, poverty, people and social levels, which are real, just as the sun is (Robson, 2011; Schwandt, 2007). This approach to realism suggests that ‘reality’ is independent of our theories and perceptions (Bryman and Bell, 2007), and that there is a stratification of the real world and a resulting complexity (Robson, 2011). This suggests that objects and reality exist independently of the human mind, or without human knowledge (Blaikie, 1993). Consequently, social phenomena and their meanings are not controlled in any way by social actors (Creswell, 2013).

Knowledge, understanding and value are therefore perceived to be objectified in the minds of the people being studied. As such, if pursued in an appropriate manner, the objective truth can be discovered (Crotty, 1998; Schwandt, 2007). In research underpinned by realism similar approaches to data collection and analysis could be used by both social and natural scientists (Schwandt, 2007). Mechanisms which are real but not accessible to observation nor are they discernible, produce social phenomena. Consequently, the researcher’s role is to construct hypotheses on the basis of such mechanisms as well as to seek their effects. In such cases the researcher is guided by structures and mechanisms rather than phenomena and events (Bryman and Bell, 2007).

Organisations, such as SMEs, that are the focus of this study, reflect social order and are made up of real processes and structures. They compel members to follow their requirements, a key issue in corporate governance (Bryman and Bell, 2007; Creswell, 2013). In organisations, as well as culture, the social entity is perceived as being external to an actor, as well as possessing a tangible reality. It is considered to have the characteristics of an object and as such, an objective reality (Bryman and Bell, 2011). It is therefore possible to view a research design not merely as a model to guide a research study, but also as an entity, namely, the practices and conceptualisations used in a study. In addition, the relationships between the research and the participants could be viewed as a valid component of a study's design-in-use. This relationship is important in the functioning of the research (Maxwell, 2005, cited in Maxwell and Mittapalli, 2010).

5.1.2 Subjectivism

Subjectivism, referred to interchangeably as 'constructionism' or the 'interpretivist view', is concerned with the interpretation of the social world by those that are involved in it (Robinson, 2002). Constructionism refers to the world of experience and the manner in which it occurs, and is felt by people in a social situation. Elements of postmodernism, constructivism, critical theory and participative inquiry fit together (Niglas, 2010; Schwandt, 2007). Researchers become a part of the research through their interaction and communication with people (Easterby-Smith *et al*., 2002; Berger and Luckmann, 1966). In this situation meaning is neither 'out there' nor is it objective, waiting to be discovered. It is created on the basis of other people's interactions, as well as through the cultural and historical norms that operate in the lives of individuals (Robson, 2011; Schwandt, 2007).

Social interaction is not the only means through which social phenomena are produced. Social phenomena are also in a process of constant revision (Bryman and Bell, 2007). Social reality and meaning are constructed from people's experiences and meaning is also 'channelled' towards some things or objects (Creswell, 2013; Thomas, 2013). Consequently, the researcher can only understand people's behaviour if he or she understands those meanings which have to be interpreted in the context in which they occur (Thomas, 2013). Therefore the interpretation of 'reality' by a research participant or the researcher is influenced by personal, historical or cultural experiences. This means that in the case of research into a single phenomenon there could be as many realities as there are research participants and researchers (Robson, 2011; Creswell, 2013). Our experience, speech and thoughts in relation to reality, as well as reality itself, are a function of the conceptual framework or scheme according to which we live. Examples are culture, language, games, lifestyles and paradigms. These yield an understanding of reality and experience which is incommensurable (Schwandt, 2007).

Ontologically, the perception of meaning in the social world is such that it is constructed socially: in other words, there are multiple realities instead of a single 'truth' (Crotty, 2003). The researcher is of the view that the data gathered in this research will not amount to 'reality' because of the belief that there is no truth out there waiting to be discovered, rather meaning is socially constructed along with the researcher's view (Schwandt, 2001). It was not the researcher's intention to determine the concrete truth in relation to SMEs' ability to exploit corporate governance, instead he sought to understand the phenomena under investigation through the subjective views of SME owners and managers. As Robson (2002) argues, reality is made up of constructs that are both fluid and mutable, without any concrete 'truth'. Social processes, such as corporate governance and entrepreneurship, may well involve subjective experiences which may include personal interactions with others, as well as emotions.

As a result of being both a business teacher and an entrepreneur, the researcher is of the opinion that personal accounts that are subjective are important in exploring issues that are the focus of this research. Also, in the course of the research there were interactions with many people from different backgrounds, some of whom were entrepreneurs. Some of the discussions held related to how their firms were managed; ways of broadening participation in order to encourage growth; and issues relating to accountability and sustainability. In some instances, some ideas and opinions arose spontaneously, and one cannot rule out subjectivity in such instances. The point remains that these experiences cannot be isolated entirely, consequently; the research will be underpinned by a constructionist ontology.

5.2 Epistemological position

The ontology of a research study serves as the basis for the identification of the epistemological position (Bryman, 2001). This means a transition to epistemology from a focus on the concepts of 'existence' and 'reality' towards the perceptions of the researcher in relation to the philosophy of knowledge (Moore, 1999). The focus of epistemology is to ascertain what is, or should be considered as acceptable knowledge within a discipline. The epistemological position of a piece of research usually falls within the sphere of one of the three key epistemological realms: 'social constructionism,' 'critical realism' and 'positivism' (Bryman, *ibid*; Crotty, 1998).

The choice of a positivist epistemology is usually premised on knowledge being concrete, as well as measurable, and thus the researcher seeks to establish the truth regarding a phenomenon which mirrors the objectivist ontology. However, social constructionism at the other end of the continuum is of the view that over time and in different contexts knowledge is subjective, as well as mutable, and that language and interaction bring about its construction, a perspective that is reflective of constructivist ontology. Critical realism exists midway between constructivism and positivism and combines the elements of both epistemological positions (Robson, 2002).

There is often confusion over the use of the concepts of 'social constructionism' and 'constructivism' (Gergen and Gergen, 1991). Despite the debate about their relationship some researchers are of the view that these concepts do not exist within the same paradigm (Gergen, 1985). The idea of a dualism of social reality, namely, the subject/object dichotomy is disregarded by social constructivists (Giddens, 1984; Gergen *ibid*), who believe that knowledge is "not something people possess in their heads, but rather, something people do together (Gergen, *ibid* p. 270). In this context 'doing together' involves creation of knowledge through language in the course of social interactions. As Berger and Luckmann (1966) point out in their exposition on dialectics, human actions, as well as interactions, result in social realities. However, they exist over time with the attribute of objectivity. Cunliffe (2008) refers to such 'objectivity' as 'structure' and concludes that knowledge is neither entirely subjective nor wholly objective, rather it is relationally responsive, or ‘constructive’.

Separating the ‘knower’ from the ‘known’ (knowledge), as well as the process of ‘knowing’, is impossible from a social constructionist perspective. This is a result of the closely interwoven nature of the three, as each of them shapes the other (Krippendorff, 1991). The process of ‘knowing’ is relied upon by the ‘knower’, and this process of ‘knowing’ is made up of the ‘knower’ and what he knows (knowledge). This is the basis upon which social constructionism can be viewed as epistemology as well as ontology. It also provides a basis for the argument against the dualism of objectivity/subjectivity. In the context of this research, if corporate governance is perceived as knowledge, it is neither subjective nor objective from the social constructionist perspective. Put differently, it is neither a product of the internal processes of human being, for example, consciousness or cognition, nor does it represent social reality’s unique nature.

A social constructionist epistemology underpinned this research. The researcher sought to understand how owners and managers of SMEs perceived the concept of corporate governance. There was also the dimension of endeavouring to understand corporate governance’s relationship to sustainability in a SME. An individual approach, acknowledging how language and experience are constructed, was taken. Of importance, also, was the acknowledgement of the importance of the background, interactions, experiences and beliefs of the participants’ on the basis of which their knowledge was constructed.

5.3 Philosophical considerations: a choice of phenomenology?

Phenomenology is a qualitative methodology whose central focus is the exploration of the experiences of individuals, as well as meaning, in everyday phenomena (Merleau-Ponty, 2012). As Creswell (1994) argues, it involves the examination of human experience and generates detailed descriptions of the people being studied. This approach's intention is to access and understand the very essence of the lived experience. Schwandt (2001) notes that it involves a descriptive account of things and the way an individual has experienced them. The approach suggests that a holistic lens is best suited to research into the nature of experience. Such a lens should be used to view interactions which have taken place over time between individuals (parts) and the world (whole) (Merleau-Ponty, 2012).

Descriptive and hermeneutic phenomenology are two strands of this approach (Maggs-Rapport, 2001). Hermeneutic phenomenology was of interest to this research due to its situation within the constructivist paradigm, as well as its recognition of the perspective of the researcher (Omery, 1983). It holds that the worldview of the researcher should not be excluded from the analysis of a phenomenon. On the contrary descriptive phenomenology excludes the researcher's understanding of a phenomenon in what is termed 'bracketing.' The intention of bracketing being to 'return to the phenomena themselves' in a way that provides the researcher with access to new understanding, or verifies previously held meanings of the phenomena (Crotty, 2003; Schwandt, 2001). Put in another way, it entails suspension of judgement of the natural world in order to focus on the analysis of the experience.

Similar to grounded theory, phenomenology uses open, qualitative, in-depth interviews to gather data. However, an important difference is phenomenology's focus on a smaller number of participants, while grounded theory focuses on larger groups. These participants provide individual accounts of their experience, and are known as 'key informants' (Creswell, 1994). Accordingly, the phenomenon's description is ascertained through relations that are internal and external and belongs to the phenomena's essence (Merleau-Ponty, 2005).

Though hermeneutic phenomenology would have been appropriate for this study in view of the researcher's experience, it was not suitable due to the anticipated number of research participants required to enhance the validity of its outcome (Thomas, 2013; Denzin, 1978). On the other hand, a rich description of corporate governance principles and sustainability issues could have been obtained through descriptive phenomenology. However, it might not have been able to explore or capture the meaning of social processes or interactions (Crotty, 2003; Schwandt, 2001). The focus of phenomenology on experience had the ability to provide insights into the experience of entrepreneurs in their firm's governance as well as how they dealt with issues of sustainability. However, it could not explain social processes that would help in determining whether sustainability was achieved through corporate governance. The researcher is of the opinion that the key issues on which this study focused, namely, corporate governance, strategy and sustainability, are social processes. This necessitated the choice of a theoretical framework that would factor in other roles that would help in generating understanding of the relationship between corporate governance and sustainability in an SME setting. The benefit of this choice would be the ability to go beyond merely understanding experiences and to develop an inductive theory, thereby contributing to the body of knowledge within the area of study.

5.4 Constructivism

Constructivism was considered as the paradigm of this research as it is perceived to be participatory, involving a co-creation of reality through the interaction between human minds and the world. This highlights the existence of both subjective and objective realities. It also demonstrates the notion that reality is an outcome of a participatory process (Howell, 2013). A major focus of constructivist inquirers is the understanding of contextualised meaning, the meaningfulness of human actions as well as interactions in a particular context (Greene, 2000). Constructivism posits that those who believe that they have discovered or investigated reality, as it is perceived, have actually constructed it (Watzlawick, 1984). One of this paradigm's core assumptions is that there is no subjective reality out there. Reality is in fact constructed by individuals who are influenced by a range of cultural and social factors, resulting in co-construction. As such, it is believed that no single methodology in science is the only valid one, instead there is a range of methods that are useful (Howell, 2013; Guba and Lincoln, 1989).

Constructivism has two important principles: knowledge is actively built by the person (subject) that is cognising, and not received passively; there is also the dimension that relates to the adaptive function of cognition which serves the experiential world in organising instead of discovering ontological reality (Glasersfeld, 1987). The construction of social meaning involves intersubjectivity among human beings, which is a key feature of constructivism. It is a shared understanding between people who interact on the basis of common interests. This group of people also subscribes to common assumptions which provide the grounds for their communication (Rogoff, 1990). Interactions and communication involve ideas regarding the world, which are socially agreed upon. They also involve social patterns and rules relating to the use of language (Ernest, 1998). In addition, there are negotiations within groups that communicate and generate social meaning and knowledge (Gredler, 1997). In effect, personal meanings developed from these experiences are impacted upon by intersubjectivity within the community.

In addition to providing grounds for communication, intersubjectivity also supports individuals in extending their understanding of activities and of information that is new to members of the group (Rogoff, 1990; Berger, 1966). Interactions between people and their environment result in identity being created along with knowledge, which itself is domiciled within culture (Berger and Luckmann, 1966; McMahon, 1997; Berger, *ibid*; Shunk, 2000). Intersubjectivity resulting from historical and cultural factors in the community also influences the construction of knowledge (Prawat and Floden, 1994; Berger, 1966). It is easier for members of a community to understand new activities and information that arises when they are aware of the intersubjective meanings. In a constructivist paradigm there is a continuous interaction between the researcher and the researched epistemologically (Howell, 2013). There is also a limit to the possibility of generalising on the basis of the research. It is not possible to differentiate cause and effect because all entities are being shaped simultaneously and mutually.

The importance of context and culture in understanding society, as well as constructing knowledge on the basis of this understanding, is emphasised by constructivism (McMahon, 1997; Derry, 1999). This paradigm is based on assumptions about reality, learning and knowledge. Social constructivists believe that the basis of reality is its construction through the activities of human beings. They opine that together members of the society create the characteristics of the world (Kukla, 2000). On that basis reality cannot be discovered and was not in existence before it was socially created. Constructivists also hold the view that knowledge is a product of human beings, which is culturally and socially constructed (Gredler, 1997; Ernest, 1999). As such, meaning is created by individuals during their interactions, which also involve the environment in which they live. Furthermore, constructivists consider that learning is a social process which takes place within and outside an individual, and is not a behavioural development that is passive and shaped by external forces (McMahon, 1997). From an axiological viewpoint, constructivism is subjective and consequently value bound (Lincoln and Guba, 1985).

5.5 Axiology and the boundaries of this study

Axiology, a term often used in this report, is a branch of philosophical ethics that relates to ‘values’ (Edwards, 2010; Schroeder, 2012). The end of the nineteenth century marked the period when it was first articulated following studies of issues relating to justice, goodness and beauty as being ‘definite’, as well as elements of ‘value.’ Axiology attempts to examine issues on the basis of what is worth promoting or pursuing and what such issues mean, as well as whether and how one could reach a conclusion that constitutes knowledge (Kupperman, 1995). There are differing theories and approaches to axiology of which three are perceived as dominant in the late nineteenth century: the American school considered to be pragmatic and subjective; the English school of realists and objectivists; and the Austro-German school of value phenomenologists (Smith and Thomas, 1998).

5.5.1 Schools of thought in axiology

The American school of thought was led by philosophers such as John Dewey (1859 – 1852) and William James (1842 – 1910), who proffered the idea of the world as a whole whose existence only involves human activities (Edwards, 2010; Navia and Kelly, 1980). Dewey believed that there exists a huge realm of possible values, which spans a vast range of interests and desires from which such values originated. He disagreed with the notion of an absolute ethical norm, arguing that scholars should focus on understanding the characteristics of human desire (Smith and Thomas, 1998). This perspective was further pursued by Ralph Perry (1876 – 1957) who pointed out that value is underpinned by 'interest', which is similar in meaning to purpose, desire and will. He opined that something of interest is in itself of value. Such value is acquired by any object once an interest in it is indicated (Perry, 1914).

The value theory originated from the Austro-German school of thought in the late nineteenth century. Its approach was based on a phenomenological methodology which has to do with personal experience that is largely free from theoretical interpretations and presuppositions (Smith and Thomas, 1998). Various types of experience, such as emotion, perception, imagination, memory and desire, were studied by phenomenology proponents, such as Edmund Husserl (1859 – 1938). These experiences embody social activity, linguistic activity and physical action. The structure of these experiences, Husserl argues, involve 'intentionality,' an attribute of consciousness about something, or experience's directness in relation to the things of the world. As he notes, we experience things through being conscious of them and consequently discern meaning as well as discovering meaning in them (Smith, 2011). This perspective is derived from that of Austro-German philosopher, Franz Brentano (1838 – 1917) (Smith and Thomas, 1998).

The works of G. Moore (1873 – 1958), Hastings Rashdall (1858 – 1924) and W. Ross (1877 – 1971) have formed the basis of the English axiological tradition. The value which relies upon the ideas of moral intuition and moral rightness were propounded by Moore and Rashdall, and are consequently described as consequentialists. The value implies that rightness involves production of goodness, meaning that actions are perceived as being right on the basis of their consequent goodness. Moore introduces the idea of 'naturalistic fallacy' when he argues that 'good' is indefinable and, as such, not a natural object. Instead, he points out that it is a non-natural attribute which could be intuited. From his perspective, John Mill (1806 – 1873) argues that 'good' means the happiness which men pursue, and that its maximisation should be viewed as the right objective of human endeavour. He goes on to differentiate between good and happiness, noting that the question 'but is that good?' never has an endpoint. He is of the view that, irrespective of the definition of 'good', the question will always be open-ended, and never trivial. As such, the idea that a thing is good suggests that it possesses a quality that is non-natural, simple and intuitable. Consequently, it would amount to a naturalistic fallacy when this quality is identified with an object in nature, for instance, happiness.

5.5.2 Axiology's main concerns

There are differing perspectives on the key axiological issues: What is the nature of something that denotes that 'it has value' or that 'it is of value'? Is the possession of value objective or subjective? Is value internal to the object or dependent on the observer's feeling? What is of value or valuable? The contentious points in these perspectives relate to objective and subjective values; instrumental (extrinsic) and intrinsic values; and the idea of commensurability of value (Gredler, 1997).

5.5.2.1 Objectivism and subjectivism

Two opposing traditions in axiology are objectivism and subjectivism. While objectivism believes that values are independent of human beings, subjectivism is held to be a human being's subjective state. Interestingly, these two traditions have a wide range of interpretations. There is the view of some subjectivists that we confer value on objects through our interest or pleasure in them. Another school of thought posits that value is a mere expression of our emotions. Furthermore, moderates within the same school of thought consider that value is an anthropocentric concept. They further argue that what we perceive to constitute a good life are seen as such because they are good rather than because they are components of human life. A more extreme objectivist perspective, however, holds that beauty and good exist independently of human interest (Moore, 1922). Consequently, the constructivist approach of this research appears to align with the subjectivist tradition of axiology (Guba and Lincoln, 1985; Moore, *ibid*). This tradition believes that reality is a creation of human activities, and that meaning develops from experience impacted upon by intersubjectivity (Gredler, 1997).

5.5.2.2 Intrinsic, extrinsic and instrumental value

Intrinsic and extrinsic value represent a dichotomy that exists in axiological debate. Scholars have been largely focused on the effort to identify intrinsic value. Traditionally, they have defined it as 'value as an end' or 'value in itself.' The technical perspective, 'a value which is dependent wholly on its internal characteristics,' marks it as distinct from extrinsic value. Extrinsic value depends on its external characteristics, which could be partial or total 'Instrumental value' arises from the idea, for instance, that while 'satisfaction' may be an intrinsic value, 'money' may not only be of extrinsic value. Money is also instrumental to acquiring what may bring about satisfaction. The meanings of these three terms are always contested, and they vary according to how they are used, as well as the context (Guba and Lincoln, 1985).

5.5.2.3 Commensurability of value

The issue of moral commensurability has long been debated among moral philosophers. Many traditional axiological theories hold the view that value is something that can be classified. They also consider that it is hierarchical to the extent that some values are more valuable than others. Aristotle (384BC – 322BC) opined that there is the 'highest good' the attainment of which should be every human being's focus (Ross, 1930). Ethics, Ross (*ibid*) posits, is a practical discipline which could offer solutions to conflicts of opinion in relation to what is best for human beings. This could be through the identification of the 'highest good' which human beings find desirable. Aristotle identifies virtue as being the core of a human life that is good, and the highest good as ‘wellbeing.’ He believes that goods, such as wealth, justice and health, are subordinate to wellbeing since they promote it.

5.6 Axiological issues relating to this research

There was an assumption on the part of the researcher that the majority of the participants in this research who were owners and managers of SMEs would have a basic understanding of the meaning of corporate governance, strategy and sustainability. On that basis there was no need for extensive explanation of the concepts to most of the participants. There was also no apparent reason to expect that specific issues might influence participants’ responses. This was due to the fact that they were mainly business owners and managers whose anonymity was assured. Furthermore, as far as the researcher was aware, the participants had no stake in the research beyond contributing to the enhancement of knowledge. However, it might not have been completely out of place to assume that some respondents might not want to provide certain answers in order to avoid portraying their organisations in a negative light.

Time was a major limitation to this study as a result of the deadline for completion. An important aspect of this time factor related to the availability of the participants. Owing to the fact that the researcher might have needed to interact with some of the participants more than once, it could have put such participants under more pressure. Consequently, the research participants offered limited access, and thus the research tools were designed to take account of what was feasible. Also, access time was restricted to what was also feasible in the prevailing situation. A direct outcome of these limitations was the decision to select research participants within the researcher's locality in London. These limitations imply that the ability to generalise with the outcome of the research would be limited.

5.7 Ethical perspectives

A brief philosophical discussion of some issues on which this study focused will be undertaken in this section. Having examined the theories underpinning corporate governance, the section seeks to analyse the governance based on two key ethical perspectives: deontology and teleology. The goal is to examine these perspectives in order to determine their relevance in terms of understanding the motivations of owners and managers of SMEs with respect to their roles. This will further aid the understanding of the issues relating to corporate governance and corporate sustainability in SMEs. As Howell and Sorour (2016) point out, when the procedures of governance are transparent and ethical, they facilitate confidence, trust and growth.

The motivation of SME owners and managers in the governance of their firms is of key interest to this research. An owner or manager's "rationale for acting through self-interest (egoism) and/or common interest (altruism) underpins the ways agents behave when dealing with moral dilemmas and regulation" (Howell and Sorour, 2016, p. 2). Consequently, this examination of ethical perspectives may aid the researcher in understanding the rationale for the actions of owners and managers of SMEs, which may in turn aid the understanding of their behaviour as well the implications of such rationales and behaviour for SME governance and sustainability.

Furthermore, within an organisation the concepts of shareholdership and stakeholdership raise an ethical question of who benefits from unethical conduct. Rather than the shareholders or the entire group of stakeholders, the beneficiaries of unethical conduct as espoused in agency theory, are the managers of the corporation. This results in the need for ethical business codes in respect of managing the corporation (Nwanji and Howell, 2004). Ethics relate to morals in human conduct or conscience, and what a profession perceives as appropriate. It refers to the normative appraisal of 'did and attitude' of social groups and individuals, and serves as a prism for analysing organisations' role in achieving their goals under societal control (Singer, 1998; Kant, 1987; Sherwin, 1983).

5.7.1 Deontology

Deontology and teleology are two major perspectives for the explanation of ethical issues or moral reasoning. Deontology is an approach that determines what is good or right by examining an action, instead of the consequences of the action or the intentions of the actor, and it states that "duty is the basic moral category independent of the consequences of the action" (Nwanji and Howell, 2004 p.355). "A deontological norm is one that evaluates an act by a characteristic that cannot be gathered from its consequences'' (McCormick, 1973, p.62), and tries to ascertain what duty involves without considering the consequences of acting in specific ways. Deontologists perceive moral principle as being ascertained through some logical test of consistency (Pritchard, 1949).

In postulating the deontological perspective, Kant (1964 p.64) notes that "it is impossible to conceive of anything in the world, or indeed out of it, which can be called good without qualification save only a good will." Older moralists are careful to distinguish between 'goodness of the inner act' (called *mens rea by* criminal lawyers) a derivation from 'goodness of the external act' (otherwise known as *actus reus*) on the premise that what is intended could be different from what is actually done. In other words, the intent with which it is done may not reflect the moral character of an action – crimes remaining crimes despite laudable reasons informing the commission of the crimes (McInerny, 1982; 1992; MacDonald and Beck-Dudley, 1994). However, Kant's moral philosophy is objected to on the basis of its excessive permissiveness, allowing morally reprehensible maxims to pass muster (Grisez, 1983). Pushing the logic of the categorical imperative to a comical limit, Hospers (1961) imagines how it would pertain to a sadomasochist who would easily and instantly inflict pain on other people since he enjoys the same pain.

5.7.2 Teleological perspective

An action is perceived as good or wrong from the analysis of its outcome according to the teleological perspective (Beu *et al*., 2003). The teleological approach looks at consequences in evaluating actions, with actions being deemed right if their consequences are seen to be right, or wrong actions are regarded as wrong as a result of their bad consequences (Beauchamp and Bowie, 1993; Donaldson and Werhane, 1993). Teleology is usually identified with some form of utilitarianism (Solomon, 1992; Wolfe, 1991); on one hand, utilitarianism is perceived as an ineffectual descendant of the traditional teleological approach, while the truth that is omitted in utilitarianism is abundantly found in teleology. Traditional teleology is perceived as a synthesis of deontology and the antithesis of utilitarianism (Macdonald and Beck-Dudley, 1994). Utilitarianism morally assesses individual actions, policies and laws according to their consequences, while those that produce the greatest portion of good over evil are viewed as the best (Wolfe, *ibid*). Jeremy Bentham intended utilitarianism to serve as an engine for social change, employed to change the laws, and to be measured by its 'utility' and contribution to general social welfare for the sake of the greatest happiness of the greatest number. In this context happiness is identified with pleasure and unhappiness with pain.

However, not all pleasures are created equal (Mill, 1967; Bentham, 1962). The stark reality is that pleasures are incommensurable and cannot be translated into ‘utiles’ and measured, resulting in preference satisfaction taking the place of pleasure as a goal of action and policy. Individuals are able to rank satisfaction while Posner (1983) equates people’s willingness to pay for what satisfy them (the people) to the ‘worth’ or ‘value’ of their preference. (Coleman, 1980; Macdonald and Beck-Dudley, 1994; Posner, 1983). There is a modern tendency to equate teleology with utilitarianism. For utilitarianism anything goes as nothing is completely forbidden, while everything could be rationalised by the expected good and evil consequences.

A distinction is made between utilitarianism and teleology by Von Wright (1963) who notes that one creates a notion of good relative to the nature of man, which is objectivist, and the other makes a notion of good relative to the needs and wants of individual men, which is subjectivist, and that the first tends towards teleology (Newton, 1991; Solomon, 1992). Teleology and utilitarianism agree that the ultimate end of all human actions is a happy life; that every other end is sought for the sake of achieving happiness; that happiness is not sought as a means to an end; that happiness is an end that is never a means; that a happy life involves good that is all-embracing in which all assorted good that is lesser has to find its place; that human beings pursue their own happiness (Rasmussen and Den Uyl, 1991; McInerny, 1992). While utilitarianism perceives the happiest life as the one with the highest possible overall level of satisfied desire, teleology believes that because of human nature, human beings realise happiness through participation in things such as friendship, learning, play, work and leisure (Finnis, 1988). Also, teleology relies on human nature as the basis of morality in the assessment of wrong or right, while utilitarianism's identification of right or wrong remains very fluid as it regards the rightness of an action as what pleases and displeases, which varies from person to person, place to place, individual to individual (Hunt and Vitell, 1986).

The teleological perspective is reflected in the works of Machiavelli, in which he provides a Ciceronian perspective of morality, power and government, a public morality that is paganistic as described in The Prince (Machiavelli, 1980; 2009). This postulation was expressed through the triad of *virtu*, *fortuna* and necessity, which reflect the ideas of human nature, leadership and power, and love of patriotism (Skinner, 1981; Price, 1973). This has resulted in a dual approach to understanding politics and these approaches, namely, personal morality and public management, rival each other. Interestingly, politics is not isolated from ethics but is separate from theology (Atkinson, 1976). Instructively, Machiavelli extensively discusses the concept of *virtu* in a prominent manner. He appears to do this in a way that projects his idea of politics and humans being the casualties of politics. This is contrary to the traditional idea of virtue involving human nature being rational, and human beings having reason and will (Parel, 1992). However, there is a distinction between what is considered as two ideas of life that are incomparable, resulting in two moralities (Berlin, 1980). The perspective with a pagan moral value of courage, fortitude and vigour is embodied Roman and Greek states. These values are perceived as prerequisites for order in humanity and the development of a society that is open. On the other hand, there is Christian morality involving mercy, charity and sacrifice, which are needed to save the soul. Atkinson (1976) argues that for the greater good of the society and the state public civic virtue is required rather than individual religious virtue.

5.8 Conclusion

The multi-disciplinary nature of this research called for an appropriate philosophical choice to underpin it. The positivist assumption that reality is out there to be studied, captured and understood appeared attractive; however, it did not align with the nature of reality of corporate governance, or the processes and relationships inherent to it, as well as the management of an SME and issues relating to sustainability. The subjectivity of phenomenology, on the other hand, coupled with its hermeneutic nature, made it a more attractive philosophy for this study, but it was not found appropriate because the hermeneutic approach is restrictive in terms of the size of the research population.

The participatory nature of the constructivist approach was chosen for this study. It recognises the co-creation of reality and focuses not only on human actions, but also on interactions and context in order to explain reality. Significant to constructivism is the concept of intersubjectivity, a shared understanding between people who interact on the basis of common interests. This aligns with the nature of corporate governance as well as issues relating to sustainability. Such interactions involve ideas as well as social patterns and rules concerning language use. These were all significant with regard to this research due to the complex nature of the subject. It was decided that the goal of understanding the practice of corporate governance in an SME would be fulfilled by this approach. The practice of corporate governance involves various levels and aspects of interactions, all of which focus on the common interests of the organisation.

The axiological approach of this research is one that is not value free. It follows a subjectivist axiological tradition as the researcher entered into the study with certain values based on his experience as an entrepreneur. There is also the fact that many of the research participants were not participating on a value-free basis, rather they were driven by their knowledge and experience of both the issues at stake and their business. Ontologically this research was approached from a subjectivist perspective, with the researcher becoming a part of the research through interactions and communications with people. As Berger and Luckman (1966, p. 129) note “to be in a society is to participate in its dialectics.” As has been noted, meaning is created through people’s interactions as well as cultural and historical norms (Schwandt, 2007).

This study was conducted on a strictly ethical basis. Anonymity and confidentiality were observed in collecting data and the purpose of the research was made clear to the participants. Permission was sought at every stage and informed consent obtained. Participants were at liberty to participate in the study and to withdraw at any time if they wished. While the research was largely carried out from a subjectivist viewpoint, there was conscious effort by the researcher to ensure that his ideas did not interfere with the data obtained.

Corporate governance has ethical implications, hence the examination of the key ethical perspectives of deontology and teleology. This enabled this research to understand whether governance issues that may be identified have egoistic or altruistic underpinning. Based on the two key perspectives that have been analysed, it stands to reason that the activities of

SMEs owners and managers that were examined in the course of the research might have either a deontological or teleological interpretation. The perspectives of Kant, Machiavelli and Smith have enabled a broader and deeper understanding of the two perspectives.

Chapter 6

Research framework and data collection

6.0 Introduction

In the course of the researcher's previous studies there were superficial examples of grounded theory. There was a fascination with the concept due to the notion that the theory developed through the methodology is grounded in data (Strauss and Corbin, 1998; Collis and Hussey, 2003). There was an assumption that theories of such origin may be more credible than those of other methodologies. Therefore this research presented an opportunity for a more in-depth study of philosophical issues that relate to the concept of methodology, as well as the chance to analyse grounded theory critically and enhance the researcher's understanding. Also, it is generally accepted that an appropriate methodology for a research study is one which will help provide answers to the research questions (McPherson and Leydon, 2002; Holloway and Todres, 2003). It was hoped therefore that identifying an appropriate philosophy and methodology would enable the researcher to address the research questions appropriately.

Methodology has been defined in various ways, for example, the way social reality is perceived and studied (Straus and Corbin, 1998); the broad strategy, the scheme of action and the design that incorporate the choices deployed in a research study (Crotty, 1998); ideas and principles that underpin a research study's design (Birks and Mills, 2011). This chapter further aims to set out the methodological frameworks considered for this research. It will explore methodologies which were deemed suitable with a view to highlighting why the eventual choice was considered more appropriate. It will analyse variants of the grounded theory in order to highlight their common features, as well as their differences. This analysis assisted the researcher to determine which of the variants would be more suitable. Furthermore, there will be an outline of the approaches used in carrying out the grounded theory methodology, among which were data interpretation, theoretical sampling and development of concept.

6.1 Grounded theory methodology, an appropriate framework?

One of the methodologies used to study such social realities as business and management is grounded theory (Collis and Hussey, 2013). This is an approach which entails deriving a theory from data that are systematically gathered and analysed through the research process. In this process, data collection, analysis and the final theory are closely related to each other in a way that allows the theory to emerge from the data (Charmaz, 1983; Stern, 1994; Morse, 1994). It is further argued that because this theory is derived from data, it is more likely to provide insight into the phenomenon, enhance understanding and provide a meaningful guide to action. It is also more likely to resemble reality (Strauss and Corbin, 1998). Furthermore, the data should be comprehensible and interpretations conceptually wide (Howell, 2003). In the context of this research it was deemed that the use of grounded theory would enable direct interaction between the researcher and owners of SMEs to take place.

The expectation of this research was that the researcher would gain access to owners and managers of small business enterprises in the course of this study. This was expected to provide an understanding of their reasoning in relation to the governance of their enterprises, their perception of the role of the board of directors, and their understanding of the relationship between the governance, the performance of the board of directors and the organisation's overall performance. There was also an attempt to discover whether the business owners perceived any benefit from this relationship. The research also sought to identify ways in which individuals running SMEs were able to manage the issue of the governance of their enterprise.

From the foregoing, and based on the researcher's previous study of grounded theory, the suggested relationship and interactions between data and reality created a degree of confidence in theories that would emerge from the methodology (Strauss and Corbin, 1998). This confidence was one of the motivations for the choice of methodology. However, one might speculate as to whether the seemingly close proximity between the researcher and the researched, as well as the consequent interactions, could have impacted on the data from this research. There is also a question about the impact of this proximity and interaction, and its extent, on the interpretation of the data.

Grounded theory was appropriate for the data collection and analysis of this research because it is a technique which provides the capability to develop theory from actual data (Bishop *et al*., 2007; Birks and Mills, 2011). Collis and Hussey (2003, p. 45) highlight its purpose as "building theory that is faithful to, and which illuminates the area under investigation." In his paper, Howell (2003, p. 23) notes that "grounded theory posits that theory is derived from data and cannot be divorced from the developmental process." Furthermore, the product of grounded theory is simple, but not a factual description, as it is a set of concepts that are thoroughly grounded and organised around a central category, and integrated into a hypothesis (Glaser, 2004). The development of theory from data is an important attribute; however, there could be concern about extraneous factors outside the data and their environment that might reasonably influence the data. In the context of this research two concepts, corporate governance and sustainability, were examined in relation to the management of an organisation. Other factors impact on these two key factors to varying degrees. An issue here is that some of these factors might have been peripheral yet reasonably important, and might either have been unexplained in instances where they were highlighted, or completely ignored.

Grounded theory, according to Stillman (2006), is a qualitative research method, which is a conceptual theory that generates methodology. Theory development is a social process that is situated within the larger context of time and place (Charmaz, 2006; Howell, 2013). Equally, the use of corporate governance as a tool for ensuring the sustainability of SMEs is a social process for which grounded theory would provide an appropriate framework and illuminate the areas under examination, as well as providing broad conceptual interpretation of data. Citing Glaser and Straus (1967), Stillman (2006) notes that theorists are aware that the evolution of grounded theory is a continuous process of reformulation and development, allowing data from all sources to contribute to the current development of the theory.

With respect to the foregoing, the issue of time and space as well as the ability to introduce data at any stage of the research comes into play. The key areas of focus of this research, for example, sustainability, continued to develop and evolve, hence the need to capture their prevailing or evolving meaning during the course of the research, as well as in a variety of contexts. Grounded theory's aim, among others, entails the identification of central categories that emerge from grouping and integration of concepts that are coded under a single heading (Strauss and Corbin, 1998; Denzin and Lincoln, 2000). The process of developing grounded theory is repetitive, requiring the researcher to return constantly to the source of data in order to verify elements of the emerging interpretation, as well as to collect new data when appropriate. The suitability of sample is not decided before the study but deemed satisfactory when the core concepts have reached saturation and no new data emerge (Smith, 1997; Hunter *et al.*, 2005).

Since the inception of the original version of grounded theory (Glaser and Strauss, 1967) other variants have emerged, for example, Glaserian grounded theory[9] which is not focused on qualitative research. This is driven by a basic process of analysing the first data collected, followed by constant comparison of concepts, indicators and categories, leading to the emergence of theory. This variant should be independent of place, time and people (Charmaz, 2006). Straussian grounded theory is focused more on qualitative data, a systematic approach which validates the data (Strauss and Corbin, 1997).

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"'All is data' is a well-known Glaser dictum. What does it mean? It means exactly what is going on in the research scene is the data, whatever the source, whether interviews, observations, documents, in whatever combination. It is not only what is being told, how it is being told and the conditions of its being told, but also all the data surrounding what is being told. It means what is going on must be figured out exactly what it is, is to be used for, that is conceptualisation, not for accurate description. Data is always as good as far as it goes, and there is always more data to keep correcting the categories with more relevant properties'' (Glaser, 2002, p.1)

There is a hybrid approach, which incorporates features of the Glaserian and Straussian approaches to varying degrees, "one that combines, by an analytic procedure of constant comparison, the explicit coding procedure of the first approach and the style of theory development of the second" (Walker and Myrick, 2006, p. 548). Instructively, there is no clear outline of specific features of either the Glaserian or Straussian approach that is required in order to be perceived as a hybrid approach, rather elements of the two approaches, and possibly the constructionist grounded theory, are rationally incorporated and justified by a researcher. Finally, there is constructionist grounded theory, which is driven by the assumption that data or theory are not discovered but are constructed or co-constructed through interactions between the researcher and participants (Glaser and Strauss, 1967; Charmaz, 2006; Bryant, 2002; Denzin and Lincoln, 2000; Strauss and Corbin, 1988). This research is operationally underpinned by hybrid grounded theory as well as a key feature of the constructionist grounded theory version. This feature enables the researcher's knowledge to be considered as valid data (Charmaz, 2006). Certain features are essential in a grounded theory research design for the final outcome to be considered as an outcome of grounded theory (Bryant and Charmaz, 2007; Birks and Mills, 2011).

Strauss's approach entails the identification of a phenomenon through a review of the literature, and data analysis through a deductive process (Hunter *et al*., 2005). However, Glaser (1992) criticises the approach of using literature to identify a phenomenon, suggesting that this would result in assumptions about what the data contain instead of what actually exists (Heath and Cowley, 2003). This could result in looking for data rather than looking at the entire data set (Robrecht, 1995, cited in Heath and Cowley, 2003). This marks the dividing point between the

Glaserian and Straussian approaches to grounded theory methodology. Also, determining when a second literature review should occur remains another contentious issue in grounded theory. While Strauss and Corbin (1994) are of the view that the second body of literature should be selectively sampled and woven into the emerging theory during the third stage of grounded theory, entailing induction and known as concept development, Glaser (1992) argues that the researcher should avoid consulting a second body of literature before the emergence of the theory from the data.

Drawing on Glaser's (1978) postulation that everything is data, it would be inappropriate for researchers using grounded theory methodology to engage in reading material which offers anything beyond a skeletal framework of concepts (Glaser and Strauss, 1967). In commencing a research project, there is a need for the researcher to avoid beginning the research with a preconceived theory in mind. The researcher's exploration of an area of study should permit the data to give rise to the theory. This will increase the likelihood of the theory having a resemblance to reality rather than a situation in which a theory is derived by joining up a set of concepts based on experience (Strauss and Corbin, 1990; Heath and Cowley, 2003). It has been further noted that the review of literature need not be extensive as theory should evolve naturally from the data, thereby producing a theory that is grounded in data (Hunter *et al*., 2005). A query that arises in this circumstance is whether there is the possibility of commencing a research study without any preconceived notion. Beyond the idea of reading prior to the research, preconceived notions may arise from a number of sources, such as previous experience and social interactions. It also remains debateable to what extent preconceived notions would influence the outcome of the research.

In contrast, a general study of the literature could provide a basis for ascertaining the issues and concepts concerning the area of research as well as identifying gaps that may be filled through the use of grounded theory (Smith, 1997). When there are concerns about certain factors related to theories, a review of literature with the aim of stimulating the processes of data collection and analysis will be beneficial. Glaser (1978) is of the opinion that a literature review should provide a broad picture of the research problem, and used afterwards as a means of confirming the theory. While his process initially involves induction, deduction commences as soon as the theory emerges (Charmaz, 2008; Stillman, 2006).

6.2 Grounded theory in management and organisational research

There is an abundance of research on boards of directors and organisational leadership based largely on the positivist approach, hence the need for more qualitative studies in these areas in order to broaden and offer a more in-depth view of governance (Nilakant *et al*., 2014; Partington, 2000). The imperative of using methods of data collection, such as audio and video recording, observations, notes, interviews and work shadowing of boards and with senior members of management, is a fundamental goal for researchers in corporate governance (Samra-Fredericks, 2000). Such approaches have helped in developing accounting systems in the area of social accounting and are lauded by Dey (2002) when he also cautions about the controversy over using some of these methods of research in accounting. He also highlights the difficulties that may be encountered in conceptualising and presenting the evaluation of findings in such studies at the initial stages. Consequently, he emphasises the need for researchers, as well as the researched, to be highly committed if such methods are to realise their potentials.

Some schools of thought believe that the use of grounded theory in management is comparatively low, and consider that in published management research there is minimal evidence of any precisely delineated, prescribed approach in the use of grounded theory (Bryman, 1988; Partington, 2000). Others argue that there is a shortage of grounded theory application in the diverse management field to be found in the literature (Douglas, 2003), to which Goulding (2002, p.155) replies that "grounded theory has an established place in management research now." It is an established form of inquiry in the area of health care, despite the contention about its place in the field of management (Goulding, 1998; Chenitz and Swanson, 1986), and nurses have used it to improve their practice with its orientation designed to improve outcomes for practitioners and patients. In the field of education 'action research', which is different from grounded theory, has been used to inform and improve practice continuously, aiming to provide practical advice and advance knowledge (McTaggart, 1988).

Instructively, grounded theory has been used in previous studies on SMEs (Rodney, 2000), corporate governance (Nwanji and Howell, 2008b; Sorour and Howell, 2013) as well as sustainability (Simmons and Gregory, 2005; Wuelser and Polh, 2016). However, the researcher found no evidence of any previous study simultaneously exploring the three phenomena of SMEs, corporate governance and sustainability involving grounded theory.

The blending of qualitative data analysis and grounded theory methodologies has eroded the conceptual goal of the grounded theory. The merger of these two concepts has resulted in the loss of the conceptual requirements of grounded theory through problems associated with aspects of qualitative data analysis, such as constructivism, accuracy and rigour according to positivistic representative requirements. This has brought about the blocking of grounded theory methodology leading to the loss of its ability to rise beyond the strictures of worrisome accuracy (Glaser, 2004; Lowe, 1997; Van, 1983). It has been noted, however, that grounded theory is a very straightforward methodology; it is comprehensive, integrated and highly structured (Charmaz, 2008; Glazer, 2004). Furthermore, it has been pointed out that, despite these features, it is a process that is eminently flexible and one which researcher could use from the very beginning of their research to the very end as:

> Its data collection and analysis procedures are explicit and the pacing of these procedures is, at once, simultaneous, sequential, subsequent, scheduled and serendipitous, forming an integrated methodological 'whole' that enables the emergence of conceptual theory as distinct from the thematic analysis characteristic of qualitative data analysis. (Glaser, 2004, para 7)

A pitfall of grounded theory is the danger of placing strong emphasis on the identification of codes as an exclusive feature of the concept without explaining how the codes relate to each other (Glaser, 1992). To this end constant comparison needs to be a key and recurring feature of the process, whereby themes are sorted out on the basis of their common features and differences as they emerge. Theoretical sampling should direct the researcher to further individuals, situations, contexts and locations, and the theory should only be considered to be developed when all core categories are saturated (Goulding, 1998; 1999; Strauss and Corbin, 1989).

Furthermore, researchers tend to confuse inductive research with grounded theory, which is not the same since there is a lack of ‘creativity’ and theoretical sensitivity in the inductive approach. Theoretical sensitivity is a necessary personal attribute of the researcher relating to appreciating the meaning and subtlety of data, and is described as the process of creating insight which the researcher employs in the research situation (Strauss and Corbin, 1990; Glaser, 1978). The emphasis on induction is played down by Strauss and Corbin (1994), while Katz (1983, cited in Goulding, 1999, p.43) challenges the notion of purity of induction as a process, noting that:

> What field researchers actually do when they use analytic induction would be described more properly by philosophers of science as ’retroduction’ than as induction. A double fitting or alternative shaping of the observation and explanation, rather than an ex post facto discovery of explanatory ideas ...

An inductive process is feasible. Remarkably, one may argue that it is as strong or as weak as a deductive alternative. While one may consider that the deductive process may be more exposed to preconceived ideas, the process of induction carries with it the possibility of individual prejudices being introduced.

6.3 A constructivist grounded theory approach

An earlier criticism of grounded theory was its lack of methodological grounding, with only strategies and techniques being outlined (Birk and Mills, 2011). Symbolic interactionism and pragmatism were later highlighted as the philosophies underpinning grounded theory methodologically (Crotty, 1998; Corbin and Strauss, 2008). However, it was earlier argued that the adaptation of any particular philosophy greatly restricts grounded theory's broader potential (Glaser, 2005). With regard to this study there was the broader consideration of whether a positivist or phenomenological approach would be more appropriate.

The researcher decided that constructivist grounded theory would be appropriate for this corporate-governance-centred research. It would enable the phenomena to be examined together with sustainability in the process of running an SME. This studied experience is referred to by Charmaz (2004) as a 'phenomenon'. Creswell (2009) notes that constructivist grounded theory offers specific procedural directions for designing a piece of research. There was the assumption, in this research, that reality would be co-created by managers and owners of SMEs and the researcher. In other words, the researcher would be a part of the reality being studied as well as the data being collected. This is distinct from classic grounded theory, which holds that the reality of the participant is discovered by the researcher, and that the data, as well as the theory, which emerge are independent of the researcher (Charmaz, 2006).

6.3.1 The grounded theory process: identification of area of study

Every research project commences with an area or issue of interest and grounded theory as a methodology may be chosen when the area of interest has been largely ignored thus obliging the researcher to build a theory from the ground (Partington, 2000; Lowe, 1997). Areas with long, credible and empirically based literature may encounter problems with the use of grounded theory, but these problems can be minimised by avoiding literature in the immediate area so as not to enter the field with preconceptions (Goulding, 1999; Birks and Mills, 2011).

Researchers have been advised to avoid unduly influencing the pre-conceptualisation of their work through extensive reading in the substantive area and the imposition of external theoretical overlays on the collection and analysis of data (Glaser, 2004). Undertaking a review of significant amount of literature prior to a core category's the emergence violates an important premise of the grounded theory, namely, that the theory emerges from data, not from existing theories. Furthermore, it risks beclouding the researcher's ability to be openminded towards the emergence in relation a new core category's emergence. Consequently, it undermines theoretical sensitivity (Bishop *et al*., 2007; Strauss and Corbin, 1990).

This study aimed to examine the management of SMEs and explore ways that would make them sustainable. Its intention was to assess the extent to which SME owners and managers understood the concept of corporate governance, perceived it as a tool, and incorporated it into their strategy as a way of making their business sustainable. This study was multi-disciplinary, and was concerned with areas of corporate governance, strategy and sustainability, where there was limited chance of these areas having been addressed in a single previous study. In the course of the literature search and review single materials simultaneously focusing on these areas were not found, there have been extensive studies in the individual disciplines relating to business management.

Unlike other qualitative research methodologies, grounded theory has the advantage of using data from multiple sources (Partington, 2000). It allows for flexibility, for example, using structured questioning during interviews, which would deprive the researcher of deriving first-hand information from the point of view of the respondent. However, unstructured interviews should be guided to some extent to avoid confusion as respondents usually require support (Silverman, 1993; Goulding, 1999; Stillman, 2006). These interviews should aim to make the study productive (Strauss and Corbin, 1998), as a result of the interplay of problem and inquiry, while answers would stimulate the researcher into asking more questions. Considering the nature of the research participants, namely, business owners and company executives, this methodology offered the researcher a first-hand opportunity with the required flexibility. While the researcher would be on hand to provide the necessary guidance, to what extent might such guidance influence the participants' responses.

6.3.2 Data interpretation

Besides the data originally collected, additional data may be collected whenever available or the need arises (Birks and Mills, 2011). Data should be collected and analysed simultaneously, initially by utilising open coding, a process in which data are reduced to distinct units of meaning, involving a full transcription of an interview and detailed analysis designed to identify specific words or phrases connecting the data to the phenomena under investigation (Spiggle, 1994; Gibson and Brown, 2009). This is then followed by a memo documenting the researcher's impression and description of the situation thereby creating a depository of ideas which the researcher could revisit to map out a theory that is emerging (Strauss and Corbin, 1998; Goulding, 1999). The simultaneous analysis of data in the context of this research aimed to provide an opportunity to compare the ideas and perceptions of the research participants. The data generated and analysed helped to provide understanding of the phenomenon. They also stimulated further questions relevant to, and providing further insight into, the phenomenon. In studying the issue of sustainability, for instance, SMEs which had been established for different lengths of time were examined and the emerging data and theories underpinned subsequent questioning.

6.3.3 Theoretical sampling

Sampling of informants is guided by the emerging theory after the researcher has gone to the most obvious places and most likely informants to gather data, and as ideas are identified and the theory develops, more data can be embedded to strengthen the findings (Glaser, 1978; 2004). This process of data collection to generate a theory requires the analyst to jointly collect, code and analyse the data and decide which data to collect next and where to find them. The purpose of this is to develop the theory as it emerges and is known as theoretical sampling. This process of data collection is 'controlled' by the emerging theory (Glaser, 2004; Strauss and Corbin, 1998). Theoretical sampling could be defined as the gathering of data that is underpinned by ideas from theories that are evolving and based on comparison-making concept. The purpose of this is to select places, people or events that will maximise opportunities to discover variations among concepts, as well as to densify categories in terms of their properties and dimensions (Spiggle, 1994; Bishop *et al*., 2007). The strength in this approach appears to be its ability continually to stimulate the generation of data and is further enriched by the continual testing of theory, thereby contributing rigour to the process.

The application of a method entailing constant comparison of like with like in order to appreciate emerging patterns and themes is the next stage of the research (Glaser, 2004).

Comparisons explore differences and similarities across incidents within the data collected, and provide guidelines for collecting additional data (Spiggle, 1994). Analysis explicitly compares each incident in the data with other incidents seeming to belong to the same category, exploring their similarities and differences. This leads to identification of concepts, which represent a positive transition from data description to axial coding, and entails a process of abstraction to a theoretical level and an appreciation of ideas in terms of their dynamic interrelationships, which should form the basis of the development of the theory (Glaser and Strauss, 1967).

6.3.4 Development of concept

Abstract concepts embrace several solid instances contained in the data, the theoretical importance of which is their relationship to other concepts or the wholeness of a respondent's experience (Spiggle, 1994). Goulding (1999) notes that on completion of concept identification, the attributes can then be explored to varying degrees, usually in greater depth, and their features dimensionalised in terms of their intensity and weakness, and the data are subsumed into a central category which has been justified by the researcher as the emergent theory's basis. All the strands are brought together by a core category and explains the behaviour that is being studied. The development of the core category is traceable backwards through an examination of the data and it has theoretical significance. This is obtainable when the theory has been written and integrated among existing theories, thereby showing its relevance as well as a perspective that is new (Strauss and Corbin, 1998; Glaser, 1978; 2004).

6.4 Methods of data collection

This research investigated corporate governance in selected small and medium-sized enterprises (SMEs) because of its importance to such organisations. This importance could be in the areas of transparency, accountability or proper management of the firm (Ahmad and Omar, 2016; Nwanji and Howell, 2007a). There is also the dimension of SMEs' importance to the economy, and the consequent effect of corporate governance on their sustainability. The research set out to try to comprehend how SMEs perceive the concept of corporate governance and practise it. What are the effects of governance regulation on SMEs, if any? What is the purpose of such regulation and does it have any unintended adverse effects? Can corporate governance for SMEs be improved or modified? Furthermore, there was an investigation of SMEs' understanding of the concept of sustainability, and whether they could see any link between corporate governance and their sustainability. In a summary, the study aimed to determine the relationship of corporate governance to the sustainability of SMEs. In the process of examination the intention of the research was to build on issues that would emerge progressively, applying grounded theory principles in constructing questions and analysing data (Glaser and Strauss, 1967) in line with the notion of using new models and approaches to constructing theories in the field of management research (Trim and Lee, 2004).

Most research on corporate governance focus on the private sector, economic performance and conformance thereby creating a dominance of the 'agency theory perspective' and a lack of 'integrated theory' (Clarke, 1998). This study provided a first-hand account of governance, with the collection of data for the study being based on fieldwork and naturalistic methods of research, and techniques being combined over a period of time in the examination of governance and management procedures. Observation of board and management activities is a viable and valuable way of collecting data in order to build on contemporary knowledge of corporate governance (Winkler, 1987; Brannen, 1987; Bryman, 1988; Douglas, 2003). However, a particular limitation of this study was the inability to be present during a meeting of an SME's board of directors as none of the firms had a board of directors. Instead the researcher chose to use a constructivist approach involving reasonably sustained access to the management of SMEs, discussion and analysis of decision-making over a period.

Multiple methods were used in collecting data. Semi-structured interviews were the main source of data collection. In addition, document review was also carried out in a very limited number of cases as well as a focus group session. This provided some insight into the context in which SMEs operate, for instance, their governance or sustainability policies (Mills *et al.*, 2006). It also assisted the researcher in uncovering meanings, as well enhancing the development of his understanding (Merriam, 1988). Questionnaires were also issued and a journal was maintained in order to help monitor issues concerning the research as well as ensuring the consistency of the research findings (Yin, 2014). It also enabled the researcher to note down his experiences, thoughts, opinions and feelings (Robson, 2002; Ortlipp, 2008). This combination was designed to facilitate triangulation of methods, with the methods complementing each other. Triangulation is a process which helps to enhance a study's validity by providing multiple perspectives on the data (Thomas, 2013; Denzin, 1978). It enhances the possibilities that knowledge will be produced as it increases depth, scope and consistency in the application of the chosen methodology (Flick, 1998; Denzin, *ibid*).

There are various interview formats: unstructured interviews, which leave the interview open to any question that is not pre-arranged; a semi-structured approach, which involves a combination of open questions and questions that are pre-determined; and structured interviews consisting of questions that are pre-determined (Robson, 2002). The researcher considered semi-structured interviews appropriate for this research as they would provide the participants with an insight into the nature of issues involved in the exercise. The quality of the data might also be enhanced as participants might seek to verify some information prior to the interview. Furthermore, semi-structured interviews would allow for flexibility while also focusing the interviewees on the key issues, and as Flick (1998) notes, they are an efficient means of data collection.

Interviews are important sources of research data and can be conducted in two ways: over the telephone or face-to-face. The chosen approach is dependent on what is practically feasible in the course of the research. Face-to-face interviews are theoretically preferred. This is based on the assumption that during a telephone interview a lack of rapport may prove to be a barrier towards seeking clarification on misunderstood issues. On the other hand, using the telephone offers more flexibility to the participants as well as extending the researcher's reach and increasing the response rate. The researcher considered that a face-to-face approach would be more appropriate for this research in order to be able to obtain the full benefit of a semi-structured interview.

The interview was structured in ways that would help the participants remain within the boundaries of the research focus, while maintaining flexibility in order to accommodate individual differences. A dictaphone was used to record all the interviews and the participants were made aware that the interview was being recorded. Although all interviews were recorded, only one was fully transcribed (Appendix 5), as advised by Glaser (1992), and processed with NVivo. The outcome is presented as Appendix 4. The interviewees were asked about the following: what they knew about the concept of corporate governance; whether they thought that it impacted on their business; whether they saw any relationship between their business strategy and issues of corporate governance; what they knew of sustainability, and whether they saw any link between their corporate governance and the sustainability of their organisation. The researcher discussed the interview findings from the earlier stages of the research with the interviewees at a later date. This aimed to ascertain whether the earlier data had any correlation with data obtained later.

SMEs were selected on the basis of theoretical sampling, relevance of individual participants (i.e. SMEs owners and managers), theoretical positions on a range of issues, as well as research questions. This means that participants were partly considered on the basis of the insight which they could potentially offer the research (Flick, 1998). For instance, an understanding of the meaning of corporate governance played a role at the initial stage of selecting research participants. The theoretical perspectives on corporate governance in the context of SMEs underpinned the decision to select SMEs owners and managers as research participants. These participants are key actors in the governance of SMEs. This choice of owners and managers was on the basis that they make decisions for their firms and manage the processes of governance. Consequently, understanding what informs their decisions and actions as well as the rationale for these decisions and actions may provide an understanding of SMEs' governance and sustainability-related issues. Furthermore, these owners and managers as well as the theoretical perspectives that predicated their choice were relevant in the development of categories. The researcher was able to gather additional data from the participants that enhanced the clarity of categories, theoretical sampling having been employed earlier in order to assist the development of properties of categories. This would enable the control of data collection by the emerging theory whereby 'theoretical saturation' would be achieved, with no new insights emerging from data (Glaser and Strauss, 1967). Therefore theoretical saturation served as the limit of this study. Effort was made to ensure that there was geographical diversity across London, as well as business sector diversity in the sampling, namely, retail, services, education, manufacturing, construction, care and financial services etc.

A pilot interview was conducted to enable the researcher to test the approach as well as the interview techniques. It also enabled the researcher to test some of the assumptions which were made on the basis of findings reported in relevant literature. It was noted during the piloting that participants preferred questions that were brief and easy to understand. This feedback resulted in the fine-tuning of the questions to make them participant-friendly for the research. Furthermore, although participants may be willing to avail a researcher of their time by participating in the interview, the pilot interview showed that participants had minimal time. Consequently, the researcher prepared properly in order to make efficient use of all opportunities and the time presented to him by research participants. The participants had sufficient freedom to explore the concepts relating to the study in any way that they found appropriate. The pilot study offered the researcher an opportunity to test equipment, anticipate follow-up questions and enhance his competence with respect to all aspects of research. It gave the researcher an idea of the time required for an effective interview and the ability to inform participants in advance. Consequently, the researcher became well prepared to make the best use of the first 15 to 20 minutes of interview sessions, knowing that this was when participants were least distracted in the course of an interview. In addition, this also provided the researcher with a better understanding of the participants and enabled him determine which of them should be invited to participate in the focus group.

Five hundred questionnaires were distributed to the research participants, who were either owners, managers or owner/managers of SMEs. Appendix 1 is a sample of the research questionnaire. Effort was made to ensure that the questionnaire was simple, not overloaded and was user-friendly. This was to ensure that it would appeal to participants. The research employed purposive sampling for the selection of participants for the questionnaire as well as the interview (Creswell, 2013). This also explains the triangulation of methods such that the data collection tools complemented each other. However, the subjectivity of the data generated from a ‘handful’ of participants could have raised issues of reliability and validity (Thomas, 2013).

6.5 Ethical considerations in relation to this study

This study involved private businesses, their owners and managers, and was likely to entail disclosure of information that was critical and sensitive to them. This placed a moral burden on the researcher. Consequently, there was a need to take various measures to ensure that the research would be ethical (Gibson and Brown, 2009). Permission was sought from the organisations that would be taking part to enable the researcher to carry out the research. The use to which the data would be put was made clear to them. Confidentiality and anonymity are central to the collection of data during fieldwork (Collis and Hussey, 2003). This entailed ensuring that information provided on the basis that it would be kept private would remain so. The researcher ensured that he strictly adhered to these principles in the course this research.

There was an agreement with each participating SME that a gatekeeper would be assigned with whom the researcher could liaise as often as the need arose (British Educational Research Association, 2011). These gatekeepers' role was to guide the researcher through the organisation's procedures during the research in order to ensure that procedures would not be inadvertently breached. They would point out the most appropriate times to visit, the times most suitable for the participants, which areas of the organisation could be used at which time in order to facilitate aspects of the study, and a range of other relevant issues. Also, collected data would be stored following strict data protection procedures. In all of these the identity of the participants would not be disclosed and, where necessary, pseudonyms would be used. In order to enhance the confidentiality of the exercise, the identity of the organisations would remain anonymous.

Obtaining the permission of participants, as well as the necessary approvals, was of importance to this study throughout the fieldwork (British Educational Research Association, 2011). The researcher ensured that permission was obtained from both the authorities within the organisations and individual participants at every stage. Permission was also sought regarding the use of the findings of the research. Prior to all of this, the participants were duly informed of what the research was about, what it would entail, and what was expected of them (Creswell, 2013). As such, they were be made aware of what they would be consenting to, as well as the implications of participating in the research, in order to enable them to give informed consent.

The participants would be informed if any situation which had not been explained to them earlier arose. They would be notified that on such occasions they must ensure that they either informed the researcher or let the gatekeeper know so that it could be addressed immediately. They were also made aware that they were free to decline either to provide answers to questions at any point, or to participate in any part of the research, any aspect of the research, or the entire research. In other words, they could withdraw from participating completely at any point of the research (Teddlie and Tashakkori, 2009). They were made aware that they should speak to the gatekeeper if they had any concerns regarding the exercise in any form whatsoever, particularly if any unforeseen situation arose.

The use of interview to understand the human conditions is a moral enterprise. This is in addition to the expectation that the participants' voices need to be the origin of the data for such data to be seen as genuine (Kvale, 2007). Consequently, there was an expectation that the researcher would search for meaning and understanding as widely as possible during interviews. As a result, the number of participants who were interviewed was increased, and the scope of questioning, broadened. The researcher ensured that his ideas did not interfere with the data provided by the participants. Instead, whatever ideas the researcher had were deployed as a means of generating responses in the search for wider meanings and understanding. In other instances, the researcher's views and ideas were separately and explicitly noted.

This study and the activities involved did not address issues that were considered controversial, sensitive or harmful (British Educational Research Association, 2011). The research had no sexual dimension, issues related to drugs or biological materials. In the course of conducting this study the researcher ensured that participants did not experience any form of psychological stress or harm of any kind. In addition, no financial inducement was provided.

6.6 Conclusion

In the consideration of an appropriate framework for this study ethnography was not found to be appropriate despite certain benefits. It utilises methods such as in-depth interviews, participant observation and a fieldwork diary. It enables an insider to learn about a social reality through participant observation. However, it focuses largely on the shared values of participants in a manner that enables a researcher to discern meanings that are taken for granted. On the basis of the focus of this study's research questions ethnography was not found to be appropriate.

Grounded theory is a methodology used in the study of social reality and enables theory to be derived from systematically gathered and analysed data. It is believed that such a theory is more likely to provide better insight into phenomena and enhance understanding (Strauss and Corbin, 1998). In this study, it enabled direct interaction to take place between the researcher and owners and managers of SMEs. Furthermore, grounded theory helps in building theories that illuminate the area under investigation. Also, besides its theory formulation process being a social process with an inherent ability to introduce data at any stage of the research, it is also a continuous process of reformulation and development of theory. Grounded theory aims to identify central categories derived through the grouping and integration of concepts by means of a repetitive process. The suitability of sample is only decided when the core concept is deemed to have reached saturation. This is when no new data emerge (Smith, 1997).

The constructivist grounded theory methodology was considered suitable to underpin this research. In comparison phenomenology was found to have limited capability to explore or capture the meaning of social processes or interactions. The chosen methodology enabled the phenomenon, namely, corporate governance, to be examined along with sustainability in the process of running the organisation. The researcher held the epistemological belief that knowledge would be co-created by the managers and owners of SMEs together with the researcher. This means that the researcher was part of the reality being studied. This is distinct from the classic grounded theory which believes that the participants' reality will be discovered by the researcher (Charmaz, 2006).

The next chapter will be a presentation of the empirical research findings of this research. It will also include some analysis of the results, Part 5: Analysis, coding, development of theory and conclusion

Chapter 7

Research Design, Tools and Analysis

7.0 Introduction

Having completed the review of literature, exploring theoretical perspectives as well as examining the methodological approach that is relevant to this study, this chapter will focus on the empirical findings of this study. It will deal with the data that were collected through the use of survey questionnaires. It will set out the format of the questionnaire as well as the nature of reliability and validity tests that were conducted in order to enhance the quality of the data that were generated. These tests were carried out through two phases of micro testing and the piloting.

Having completed the review of literature, exploring theoretical perspectives as well as examining the methodological approach relevant to this study, this chapter will focus on the empirical findings. It will deal with the data that were collected through the use of survey questionnaires. It will set out the format of the questionnaire as well as the nature of reliability and validity tests that were conducted in order to enhance the quality of the data. These tests were carried out through two phases of micro testing and the piloting. There is an analysis of the survey data using the Likert scale as well as a ‘Yes’ or ‘No’ analysis. These will be presented in the form of bar charts in order to enhance understanding of the outcomes.

7.1 Theory-building using grounded theory

An open-minded approach to data collection in the research field is an important prerequisite in grounded theory research. This enhances the researcher's chances of discovering theories that are new as they emerge along with the data. Extant theories are also important as they sensitise researchers of the significance of concepts that are emerging as well as the categories (Glaser, 1978). In grounded theory methodology, theory and knowledge also serve as informants. This enables pattern recognition which would have been limited and superficial without theory and knowledge. This would have resulted in the researcher losing conceptual leverage upon which theorising should commence (Goulding, 2002).

The key objective that led to the choice of grounded theory in this study is the development of substantive theory in relation to corporate governance's relevance in achieving sustainability in SMEs. Grounded theory is a qualitative methodology, which researchers have refined for the purpose of studying behaviour (Strauss and Corbin, 1998). Its stages begin with open coding, which involves data sampling; axial coding, relating to relational and vibrational sampling; and selective coding, which relates to discriminate sampling. These are described in this chapter as the initial stage of development of the substantive theory. The survey questionnaire consisted of ten statements (see table 7.4) divided into five categories. The five main categories, set out in Table 7.2., into which the ten statements were placed, represented themes that emerged from the statements. This placement into categories was carried out while sorting out participants' answers like-for-like based on the five themes. The responses from the participants to each statement were analysed and compared to the five categories through the use of bar charts. The concluding phase of the substantive theory development is the analysis as well as the application of the outcomes of the interview and discussions of the focus group. This analysis is carried out in relation to the five categories in Table 7.2.

7.2 Format of the questionnaire

The contents of the questionnaire were developed in order to address issues of corporate governance and sustainability, as well as corporate governance's role in achieving sustainability in SMEs. Due to the conscious effort to ensure that the questionnaire was user friendly, it was set out on a single page with a demographic and background section and ten statements in the inquiry section. The demographic section required respondents to identify their gender, age group and whether they were business owners, managers or both. It also required them to identify how long they had been associated with the SME, their highest educational attainment, the firm's number of employees, revenue and whether they had a board of directors or not. Figure 7.1 below reflects the demographic section of the questionnaire.

Please circle the option that best describes you

Demographic and background details

i. Gender: Male/Female

ii. Age group: 5 – 10; 11 – 20; 21 – 30; 31 – 40; 41 – 50; 51 – 60; 61 - 70

iii. I have owned/managed an SME for: Less than 5 yrs; 6 – 10 yrs; 11 – 15 yrs; 16 – 20 yrs; 21 – 25 yrs; 26yrs or more

iv. My role: Owner/Member of board of directors/Manager

v. My highest level of education: No qualification/College diploma/Associate degree/Degree/Higher degree

vi. I have been a part of this SME: 10 yrs or less; 11 – 20 yrs; 21 – 30 yrs; 31 - 40yrs; 41 – 50yrs; 51– 60yrs; 61yrs or more

vii. No. of employees: 1 – 10; 11 – 20; 21 – 30; 31 – 40; 41 – 50; 51 – 100; 101 – 200; 201 – 250; 251 - 500

viii. Annual revenue: < £25,000; < £100,000; < £250,000; < £500,000; < £1m; < £10m; < £50m; < £100m; up to £250m

ix. Our firm has a board of directors: Yes/No

Fig. 7.1 Background and demographic section of the survey questionnaire

The inquiry section of the questionnaire used the Likert scale of 1 – 5 and required participants to choose an option that best reflected their view on each proposition. 1 represented ‘Strongly disagree’; 2 represented ‘Disagree’; 3 represented ‘Neutral’; 4 represented ‘Agree’; 5 represented ‘Strongly agree’; N/A represented ‘Not applicable’. It also asked respondents whether they would be interested in further participation in the research. This section sought to ascertain respondents’ understanding of the key concepts of corporate governance and sustainability (see chapters 2 and 4 of the thesis) as well as their views of the concepts’ relevance to their firms. Therefore this study focused on understanding the perceptions of business owners and managers regarding the issue of corporate governance and its relationship to a firm’s ability to achieve sustainability. Hence the research questions examined whether SMEs understood the idea of corporate governance and sustainability, as well as whether they understood how corporate governance could assist in attaining sustainability. Figure 7.2 below reflects the inquiry section of the survey questionnaire.

Please tick the option that best reflects your personal opinion.

Please circle 'Yes' or 'No' for question 1 only. Circle one answer only for questions 2 – 10:

1 – Strongly Disagree; 2 – Disagree; 3 – Neutral; 4 – Agree; 5 - Strongly Agree; N/A – Not Applicable

1. Board of directors is necessary for our firm

1 2 3 4 5 N/A

2. I understand the meaning of corporate governance

1 2 3 4 5 N/A

3. We consider corporate governance as something very important in the running of our organisation

1 2 3 4 5 N/A

4. Corporate governance does not apply to the entire organisation

1 2 3 4 5 N/A

5. Corporate governance issues concern only senior management staff

1 2 3 4 5 N/A

6. I don't have a good understanding of what sustainability means

1 2 3 4 5 N/A

7. Our firm considers sustainability only when it comes to issues that affect the environment

1 2 3 4 5 N/A

8. We don't see any relationship between our firm's corporate governance practices and sustainability

1 2 3 4 5 N/A

9. Our governance practices may help our firm achieve sustainability

1 2 3 4 5 N/A

10. Our firm is too small to think about corporate governance issues

1 2 3 4 5 N/A

Thank you for taking time to complete this questionnaire. Would you be interested in participating in the interview part of this research: Yes/No

Fig. 7.2 The 10 propositions of the questionnaire

Based on analysing the data generated from the research statements presented in the survey questionnaires (see above), this thesis went on to investigate those statements. The analysis is reported in this chapter, while the interviews and focus group that followed are reported in the next chapter, using grounded theory processes.

7.3 Reliability and validity of the questionnaire

The opinions of three experts independent of the actual research were sought in reviewing the draft questionnaire before it was piloted: the director of studies for the research, who is a university professor of corporate governance; a university lecturer, who holds a doctoral degree in corporate governance; and a PhD researcher in corporate governance. Their feedback, which revolved around inclusion of relevant explanatory notes in certain areas, streamlining the questionnaire in order to make it effective and user-friendly, simplifying some terms that might have been too technical as well as rearranging some of the questions, helped to enhance internal consistency and reliability.

Two sets of micro testing were carried out with control cells of 20 questionnaires per test. Of the 20 samples that were given out for the first piloting (P1.i), 17 were completed and returned. The other three potential respondents declined to participate despite indicating interest initially. 11 out of the 17 participants who completed their pilot questionnaires (P1.i) agreed to participate further in the research. Consequently, they participated in the test-retest reliability exercise (P1.ii) (Pallant, 2013). Twenty questionnaires were given out for the second testing, (P2.i) and they were all returned. Thirteen out of the 20 respondents who participated in P2.i agreed to participate further and were used in a second test-retest reliability exercise (P2.ii).

The results of the piloting were only used for the purpose of the piloting. They were not added to the final data that was collected for the research. On analysis no significant difference was noted in outcomes between responses given in P1 and P2. This was on the basis of the inter-rater reliability, which was determined by randomly selecting four out of the ten questions in the questionnaire. The consistency of the responses from P1 and P2 were estimated to be 84 per cent and 87 per cent respectively. Consequently, five hundred questionnaires were administered in the main survey, P3, of which 367 were completed. Of the 367 participants, 37 agreed to participate in the interview part of the research.

In the diary it was noted that during P1 that of the 17 respondents who returned their questionnaires, nine were business owners, while eight were managers. Furthermore, seven identified as being both owner and manager. Also, three managers responded to the questionnaires along with the owners of their business. This meant that five of the managers who responded were the only ones to do so within their organisations. Six respondents were owners who were lone participants in their firm. Also, it was found that four respondents were not willing to provide some information, which they considered confidential, about their firms. This led to the decision to include an option to 'Decline to Answer' (DA) in the demographic and background details section. The researcher believed that '3' which represented 'neutral' as well as the N/A (Not applicable) were adequate for the inquiry section.

It was noted that some respondents found the idea of corporate governance technical, consistent with feedback received from one of the experts whose opinions were initially sought in developing the questionnaire. Seven respondents needed explanation to understand the meaning of corporate governance. Consequently, explanatory notes were prepared to assist respondents who might require such help (see Appendix 2). Also, one of the demographic questions seeking to know the respondent's highest level of qualification was rephrased from 'Associate Degree' to 'Foundation Degree', which appeared friendlier to people within the sample area. Respondents wanted to know whether they could select more than one option from the demographic question relating to 'Owner/Member of board of directors/Manager. They were advised that they could choose more than on and a note was later added to that effect. These changes were implemented in order to enhance the face and content validity of the questionnaires.

7.4 Survey questionnaires

Five hundred questionnaires were distributed for the survey to business owners and managers. Significantly, the companies surveyed indicated that they had no board of directors. Three hundred and sixty-seven of the distributed questionnaires were completed and returned. Of the completed questionnaires, 37 respondents indicated their interest in participating in the semi-structured interviews. Each questionnaire was marked in a manner that allowed the researcher to identify those SMEs where the owner was different from the manager and both individuals participated in the research. It was done with the hope that insight might be gained into the perspectives of such individuals with a view to understanding the relationship. In such situations the questionnaires were numbered, for instance, 1a and 1b, while the next number was skipped.

7.5 Demographic and background analysis of respondents

Appendix 3 contains the full SPSS-aided analysis of the demography and background of the respondents. It shows that 202 respondents who identified as male, representing 55 per cent participated. Figure 7.3 below is a chart that reflects the analysis of the roles of the questionnaire respondents.

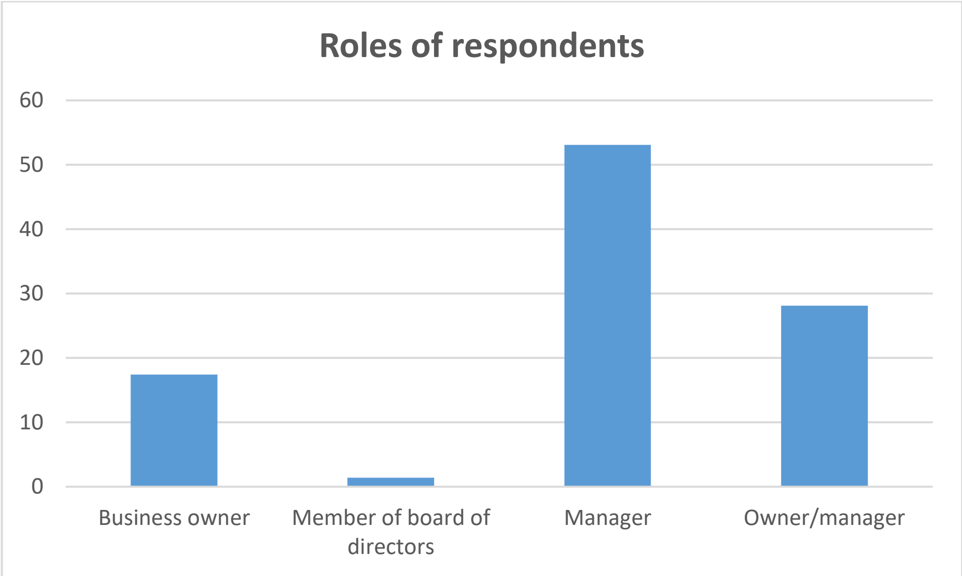

Figure 7.3: Analysis of the roles of the respondents

One hundred and sixty-five respondents who identified as female, representing 45 per cent of the respondents, participated. Of these 17.4 per cent identified as business owner, 1.4 per cent identified as owner/manager and 53.1 per cent identified as managers while 28.1 per cent identified as owner/managers. A further analysis was carried out on the industrial sectors of the participants' firms. Table 7. below provide details of the analysis.

S/No.	Industry	Count	%
01.	Hospitality & lifestyle	66	18.0
02.	Training	7	1.9
03.	Beauty & accessories	48	13.1
04.	Technology	46	12.5
05.	Furniture & leatherwork	33	9.0
06.	Retail	62	16.9
07.	Photography & printing	37	10.1
06.	Care	13	3.5
07.	Cleaning	4	1.1
08.	Vehicles	16	4.4
09.	Flower & décor	13	3.5
10.	Cloth production & Mgt.	16	4.4
11.	Business services	2	0.5
12.	Finance	4	1.1
13.	DTA	0	0.0

Table 7.1: Industry sectors of the respondents' firms

The table above shows that the hospitality and lifestyle sector had the highest percentage of respondents, 18.0 per cent, while the retail sector had the second highest percentage of participants at 16.9 per cent. The business services sector was noted to have the lowest percentage of respondents, 0.5 per cent, while cleaning and finance both had the second lowest percentage of respondents, 1.1 per cent.

Figure 7.4 below is a chart of the nature of respondents' businesses. It indicates that restaurants in the hospitality and life style sector had the highest number of respondents, 9.8 per cent. This was followed by convenience shops in the retail sector, with 9 per cent of respondents. Furthermore, the lowest responses of 0.3 per cent came from clothing accessories businesses, while the second lowest of 0.5 per cent came from business centres.

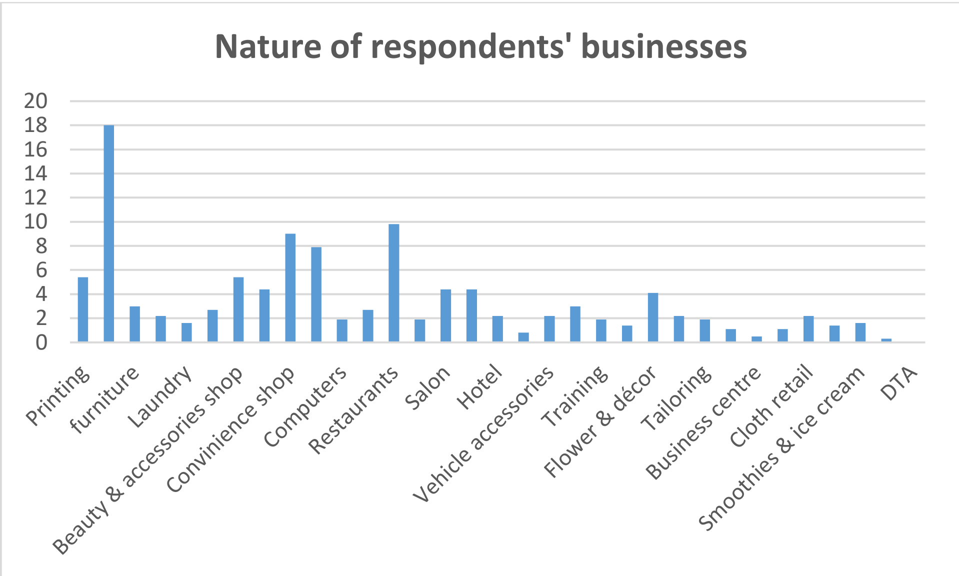

Figure 7.4: Analysis of the nature of the respondents' businesses

Other data collected relating demography to background of the respondents are shown in Appendix 3 and include the following: age range, highest level of education, time spent at the current firm and overall time spent with an SME, number of employees, revenue as well as the existence of a board of directors or otherwise.

7.6 Analysis of the survey results

Two types of table were created from the data generated from the survey, one based on propositions to which respondents offered 'Yes' or 'No', and the other based on the Likert scale (Table 7.5 to 7.14.1). To enable the researcher to apply the analytical methods of grounded theory, the statements in the inquiry section of the questionnaire were grouped into five categories reflecting issues concerning SMEs and their governance and sustainability. Each category represented two statements in that section which were linked to the relevant issues, thereby enabling the development of the categories. Consequently, the respondents' views were analysed based on the five categories in Table 7.2 below.

S/No.	Category
1.	Firm's size and governance
2.	Understanding of corporate governance and its importance
3.	Application of corporate governance principles
4.	Understanding of sustainability and its significance
5.	Relationship between corporate governance and sustainability

Table 7.2 Categorisation of survey questionnaire statements

According to Glaser (1992) categories are areas that constitute higher-order of concepts. Their explanatory powers are much wider, consequently they pull together all identified concepts into what constitutes a theoretical framework. Constant comparison of incident with incident as well as incident with concept was carried out through the coding process. This aimed to develop categories and properties. Below is an analysis of the questionnaires completed by 367 respondents.

Statement	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5	Not applicable 6	Blank
1	72	146	62	32	15	30	10
2	65	76	17	99	103	6	1
3	40	31	90	102	50	54	0
4	37	72	115	58	21	64	0
5	21	39	155	53	25	72	2
6	63	105	23	108	55	8	5
7	36	70	126	67	28	39	1
8	25	54	177	50	15	45	1
9	10	33	185	54	28	56	1
10	107	56	61	58	62	22	1

Table 7.3 Analysis of the 367 questionnaires that were returned by respondents based on the Likert scale

The data in Table 7.3 above could be presented in the form of a bar chart to enhance understanding of them. Categories that were common as well as those that were related would be easily identified. Appendices X - Y represent the analysis of the outcome of the 367 questionnaires administered to SME owners and managers. Each of the participants responded to 10 statements in the questionnaire, response which were analysed using a Likert scale, 1 - 6. This was further compared based on a straightforward ‘Yes’ or ‘No’ as shown in a second bar chart. In keeping with the qualitative nature of grounded theory the researcher did not carry out any statistical analysis of the outcome of the survey. Instead the survey outcome was used to obtain further insight into the phenomenon under investigation as well as to help with the identification of themes that emerged.

Category	**Statement**	**Yes**	**%**	**No**	**%**	**Blank**
Firm's size and governance	1	47	12.8	310	84.5	10
Understanding of corporate governance and its importance	2	202	55.1	164	44.6	1
Understanding of corporate governance and its importance	3	152	41.4	215	58.5	0
Application of corporate governance principles	4	79	21.5	288	78.4	0
Application of corporate governance principles	5	78	21.2	287	78.1	2
Understanding of sustainability and its significance	6	163	44.4	199	54.3	5
Understanding of sustainability and its significance	7	95	25.9	271	73.8	1
Relationship between corporate governance and sustainability	8	65	17.7	301	88.3	1
Relationship between corporate governance and sustainability	9	82	22.3	284	77.4	1
Firm's size and governance	10	120	32.7	246	67.1	1

Table 7.4 Summary of the total responses from 367 respondents.

In the table above ‘Yes’ represents responses that were either ‘Agree’ or ‘Strongly agree’. ‘No’ represents responses that were either ‘Disagree’, ‘Strongly disagree’ or ‘Not applicable’. It also reflects those participants who held no view, choosing ‘Neutral’. Options that were left blank did not fit into either side. However, they have been accounted for in Table 7.4. On this basis an emergent set of categories as well as their properties that fitted the category and were relevant when theory was being integrated were taken into account.

Glaser (1978) points out that the analyst commences with ‘open coding’, a line-by-line analysis of data. The survey outcome aided the analysis of the results of the interviews as well as that of the focus group interview that was carried out later and reported in the next chapter. Figure 7.5 below is an analysis of respondents’ answers to statement 1.

Statement 1: Board of directors is necessary for our firm

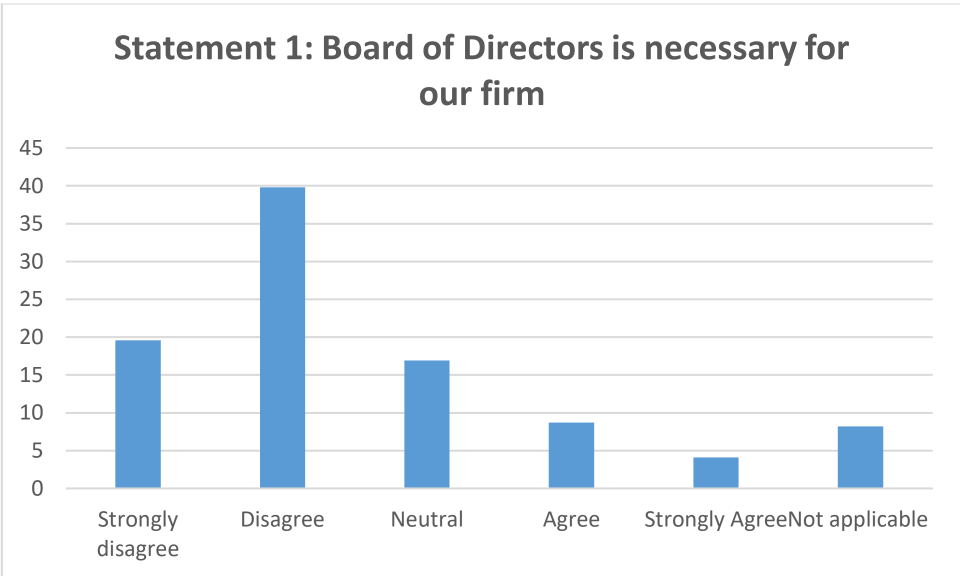

Figure 7.5: Analysis of respondents’ view of the necessity of board of directors

While 19.6 per cent and 39.8 per cent strongly disagreed and disagreed, respectively, that a board of directors is necessary for their business 8.7 per cent, 4.1 per cent and 8.2 per cent agreed, strongly agreed and found it not applicable, respectively. These data were further analysed on the basis of ‘Yes’ or ‘No’, as reflected in Figure 7.5.1 below. Of the respondents 12.8% agreed with Statement 1 while 84.5 per cent disagreed. This meant that, from the perspective of the majority of SME owners and managers, the establishment of a board of directors was not considered as something important.

Figure 7.5.1: A ‘Yes’ or ‘No’ analysis of responses to Statement 1

Mulherin (2004) identifies a board of directors as an internal organisational device in an effort to explain the concept of corporate governance. To that extent Nwanji and Howell (2007b) note the importance of the members of the board of directors doing their jobs well. They go on to highlight what these jobs are, for example, provision of guidelines on a firm’s best practices as well as ways of maximising shareholders returns. Considering that the majority of the owners and managers did not find the creation of a board of directors necessary, one may argue, based on the perspective of Nwanji and Howell (*ibid*), that they lose out on their ability to either benefit or maximise the benefits of having a board of directors. This also creates the need to further explore the reasons why the majority of the respondents did not find the need for a board of directors.

Statement 10:

Statement 10 sought to discover whether SME owners and managers believed that their firms were not of sufficient size to focus on corporate governance. The data analysis which is reflected in Figure 7.6 below revealed that 29.2 per cent, 15.3 per cent and 16.6 per cent of the respondents strongly disagreed, disagreed, or chose to remain neutral, respectively. Of the respondents 6 per cent indicated that the statement did not apply to their firms, while 15.8 per cent and 16.9 per cent of the respondents agreed and strongly agreed, respectively, that it applied to them.

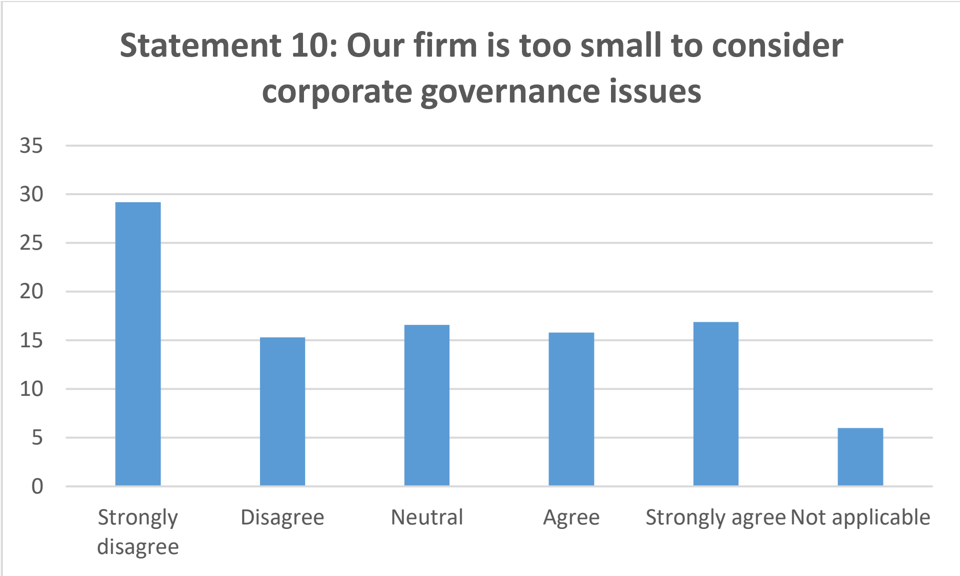

Figure 7.6: An analysis of respondents' views on the issue of a firm's size and corporate governance

Furthermore, a 'Yes' or 'No' analysis was carried out which is reflected in Figure 7.6.1 below. The data showed that 32.7 per cent of the respondents believed that their firms were too small for corporate governance issues, while 67.1 per cent indicated that theirs were not small.

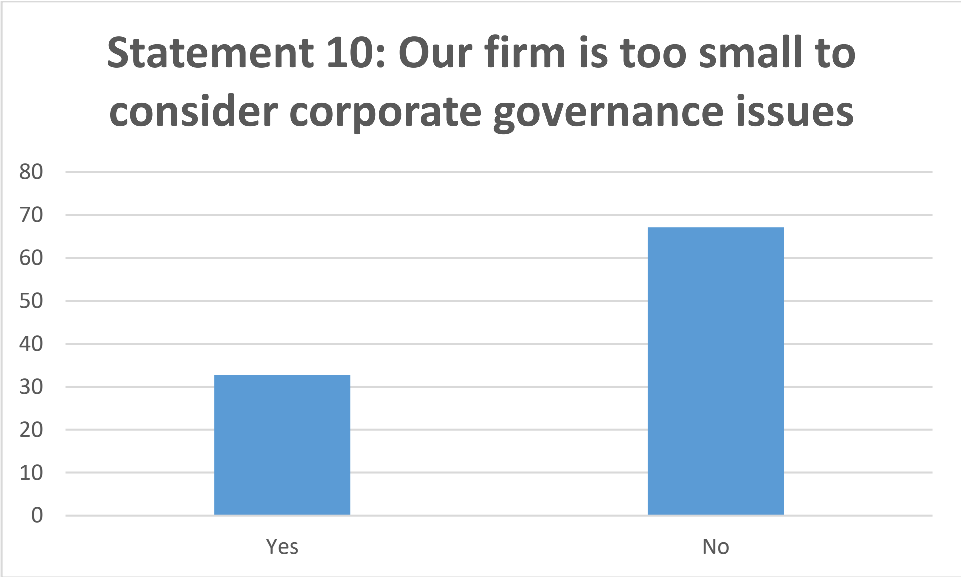

Figure 7.6.1: A 'Yes' or 'No' analysis of the responses to statement 10

Corporate governance involves a firm's internal organisational devices (Mulherin, 2004) and provides structures for the setting and actualisation of the firm's objectives (OECD, 2004). It relates to such issues as what a business is for and how it should be run (Zahra, 2014). Also, it entails monitoring and overseeing things such as a firm's strategic direction, culture, integrity and identity (Branston *et al*., 2006). Furthermore, Dalton *et al*. (2003) point out that corporate governance also involves the management of conflict arising between interested parties. All of these clearly bring to the fore the impact of respondents' understanding or limited understanding of the concept. The perspectives cited above tells one that corporate governance is relevant to every organisation, irrespective of its size. Therefore this issue was explored further during the interview that is reported in the following chapters.

7.7 Conclusion

Part of the triangulation employed in the collection of data for this research was the administration of questionnaires. In order to ensure their reliability and validity, expert opinions were sought and the questionnaire was piloted through two sets of micro testing. The feedback obtained from these processes was used to enhance the questionnaire's reliability and validity. Five hundred questionnaires were distributed to respondents and 367 were returned. Though many of the returned questionnaires, 345, were fully completed, 22 were not. Seventeen of the respondents indicated their interest in participating in the interview phase of the research.

The analysis of the questionnaires commenced with a categorisation of the ten questionnaire statements into five categories. These categories were areas that constituted the concept's higher order whose explanatory powers are wider thereby pulling identified concepts into a theoretical framework (Glaser, 1992). This was followed by constant comparisons throughout the coding process aimed at the development of categories and properties. The data were analysed by various means, for example, a Likert scale, a 'Yes' or 'No' classification as well as conversion into bar charts.

The actual analysis produced interesting results. The majority of the respondents appeared to disagree with the idea of a board of directors for their firms, which was the proposition in Statement 1. Of course, due to the nature of data collection the researcher could not determine what informed this position. Statement 2 was a proposition that related to respondents' understanding of the concept of corporate governance. The majority of the respondents indicated that they understood the concept (see Figure 7.6). However, a majority also disagreed with corporate governance being important in the running of their organisations which statement 3 proposed (see Figure 7.7). This brought about the need to explore the reasons behind the response during the interview phase of the research in view of the meaning and implications of corporate governance established in previous researches (Mallin, 2001; Desender *et al*., 2013).

Statement 5 was a proposition concerning the relevance of corporate governance to only senior management staff. A ‘Yes’ or ‘No’ analysis indicated that majority of the respondents disagreed. However, based on the Likert scale, 16.3 per cent disagreed strongly disagreed, while 21.2 per cent agreed or strongly agreed (see Figure 7.9). The scale was tilted towards ‘No’ in the ‘Yes’ or ‘No’ analysis by respondents who either indicated ‘Neutral’ or ‘Not applicable’. Furthermore, statement 8 focused on respondents’ view of the relationship between corporate governance and sustainability. Of the respondents 88.3 per cent saw no relationship when a ‘Yes’ or ‘No’ analysis was carried out (Figure 7.12). This position of the respondents was found to be inconsistent with that of previous studies on the concepts of corporate governance and sustainability (Hambrick *et al*., 2008; Robert, 2000).

This analysis did not indicate that respondents strongly believed in the idea of corporate governance. The same applies to the issue of sustainability. Also, there appeared to be no strong endorsement that corporate governance as an initiative could assist in bringing about corporate sustainability. At best one may say that there was a lukewarm endorsement. The five categories which have been identified will be carried over to the next chapter for the analysis of the interviews and focus group. The next chapter will contain the final stages of building a substantive theory of corporate governance in relation to SMEs’ sustainability. It will present the data collected from the interviews and focus group discussions. It will also contain the coding and analysis of both sets of data and will discuss the generation of a substantive theory.

Chapter 8

Data Coding, Analysis and Development of Theory

8.0 Introduction

This chapter presents further analysis of data generated during the interview and focus group discussion sessions. This data analysis would culminate in the development of substantive theories in relation to SME governance and sustainability by means of a number of coding processes. No extant literature which addresses the issue corporate governance in SMEs and how the concept may be used as a tool for achieving sustainability in SMEs was found. A substantive theory is a theory at the formative stage and a working theory for a specific context whose content is mainly descriptive (Kearney, 1998).

The interview approach will be explained as well as the considerations that might have informed certain choices and decisions regarding the approach. For instance, the choice of interviewees was the result of purposive sampling and was also underpinned by theoretical sampling. Consequently, owners and managers of SMEs were approached and their participation was requested. Some agreed and others declined. The data generated from the interviews were analysed with the aid of NVivo application. Data from a focus group discussion, the third major source of data collection for this research, were analysed. This analysis provided further perspectives on the phenomenon under investigation. The outcome of the discussions are presented in ways that will offer good insight into the issues under investigation. These activities were carried out according to the constructivist tradition, which recognises the perspectives of the researcher as valid data (Charmaz, 2006).

8.1 Further analysis of the survey results

To enable the researcher to apply the analytic methods of grounded theory, the statements in the inquiry section of the questionnaire were grouped into five categories reflecting issues concerning SMEs and their governance and sustainability. Each category represented two statements in that section which were linked to the issues that were focused upon, thereby enabling the development of the categories. Consequently, the respondents' views were analysed according to the five categories in Table 8.0 below.

S/No.	Category
1.	Firm's size and governance
2.	Importance of corporate governance principles
3.	Corporate governance principles application
4.	Sustainability's significance
5.	Corporate governance link to sustainability

Table 8.1 Categorisation of survey questionnaire statements

According to Glaser (1992) categories are areas that constitute higher-order concepts. Their explanatory powers are much wider with the result that they pull together all identified concepts into what constitutes a theoretical framework. Constant comparison of incident with incident as well as incident with concept was carried out through the coding process. This aimed to develop categories and properties. Below is an analysis of the questionnaires completed by the 367 respondents.

8.2 Use of the survey result

The output of the survey offers a numeric or quantitative description of attitudes, opinions or trend of a population (Creswell, 2013). In the view of Howell (2000), survey as a data collection technique is not purely a method of data collection for grounded theory. He also considers that survey technique could be used in a manner that furthers theory generation in grounded theory. Surveys can take different forms: open-ended and/or closed. The answers to open-ended questions offer a direct view of the reasoning of the respondent at the time when the interview was held. Answers to closed questions, on the other hand, can be easily coded, while human coding is required for the open-ended questions. Surveys could be applied to post-positivism, positivism and phenomenological researches. However, questions for phenomenological research remain open, while those of positivist and post-positivist studies are closed (Howell, 2013).

The researcher deployed a survey questionnaire as a supplementary tool for the collection of data and used it to create the opportunity of identifying prospective interview participants, and the outcomes also partly informed the interview questions. The survey was a pre-cursive introduction to the research interview. In addition to the diary that was maintained during the research, the questionnaire served as the second tool for data collection and was followed by the semi-structured interviews.

Instructively, the outcome of the survey informed the questions that were asked during the interviews. For instance, Statement 1 of the survey proposed the following to SME owners and managers: 'A board of directors is necessary for our firm'. A very significant 84.5 per cent disagreed with the proposition. Consequently, the following was set out as an interview question in order to probe further why a significant percentage of SME owners and managers did not consider a board of directors necessary for their firm: 'Do you consider a board of directors to be necessary or unnecessary, and what informs your position?' Furthermore, an analysis of the background of the survey respondents guided the researcher in determining who was in a good position to provide meaningful insight into the role of SMEs owners and managers.

8.3 Semi–structured interviews

No preconceived ideas were brought into this phase of the research (Glaser and Strauss, 1967; Glaser, 1978) in order not to unduly influence the outcome of this phase of the investigation. Consequently, the research tried as much as was practicable to pursue this phase, the structure and direction of the interview, with an open mind. This enabled concepts to emerge freely instead of being forced into categories that were predetermined. A semi-structured interview was conducted. Seventeen respondents initially indicated interest in participating in the interviews during the survey. Eventually 12 respondents participated, while the remaining five gave reasons for why they were not able to do so. An additional 25 interview participants were purposively and randomly selected bringing the total number of participants to 37. The interviews were conducted face-to-face over four weeks, and each lasted about one hour from commencement to final completion.

The interview data provided the research with additional information on the basis of which it developed a substantive theory of governance in relation to SMEs' sustainability. The research also used the results discussed in the preceding chapter as well as the focus group discussion analysis reported in this chapter. Sixteen of the interviewees were SME owners, of which two were owners only and 14 were owner/managers and the remaining 19 were managers only. See Table 8.2a, 8.2b and 8.2c below.

S/No.	Role	S/No.	Role	S/No.	Role
01.	**Owner: Male** Age: 41 – 50 yrs; SME: 6 – 10 yrs; Education: Degree; Experience: 11 – 20 yrs; Employees: 11 – 20; Revenue: <£500,000	02.	**Manager: Male** Age: 41 – 50 yrs; Education: Diploma; Experience: 21 – 30 yrs; Employees: 21 – 30; Revenue: < £500,000	03.	**Manager: Female** Age: 31 – 40; Education: Degree; Experience: 11 – 20 yrs; Employees: 1 -10; Revenue: < £100,000
04.	**Owner/Manager: Female** Age: 51 – 60; Education: Diploma; Experience: 31 – 40 yrs Employees: 1 – 10; Revenue: <£250,000	05.	**Manager: Male** Age: 31 – 40; Education: Degree; Experience: 5 – 10 yrs; Employees: 1 – 10; Revenue: < £ 500,000	06.	**Manager: Male** Age: 51 – 60; Education: Degree; Experience: 21 – 30 yrs; Employees: 1 – 10; Revenue: < £500,000
07.	**Own/Manager: Female** Age: 31 – 40; Education: Degree; Experience: 5 – 10 yrs; Employees: 11 – 20; Revenue: <£1m	08.	**Manager: Female** Age: 31 – 40; Education: Degree; Experience: 5 – 10 yrs; Employees: 1 – 10; Revenue: < £250,000	09.	**Owner/Manager: Male** Age: 41 – 50; Education: Diploma; Experience: 21 – 30 yrs; Employees: 1 – 10; Revenue: < £250,000
10.	**Manager: Male** Age: 21 – 30; Education: Ass Degree; Experience: 5 – 10 yrs; Employees: 11 – 20; Revenue: <£500,000	11.	**Owner/Manager: Male** Age: 31 – 40; Education: Degree; Experience: 5 – 10 yrs; Employees: 1 – 10; Revenue: < £250,000	12.	**Manager: Female** Age: 31 – 40; Education: Diploma; Experience: 11 – 20 yrs; Employees: 1 – 10; Revenue: < £25,000

Table 8.2a: Demographic and background analysis of interviewees

13.	**Manager: Male** Age: 31 – 40; Education: Diploma; Experience: 11 – 20 yrs; Employees: 21 – 30; Revenue: < £1m	14.	**Manager: Male** Age: 41 – 50; Education: Diploma; Experience: 11 – 20 yrs; Employees: 21 – 30; Revenue: < £500,000	15.	**Owner/Manager: Female** Age: 31 – 40; Education: Degree; Experience: 11 – 20 yrs; Employees: 1 – 10; Revenue: < £100,000
16.	**Manager: Male** Age: 31 – 40; Education: Degree; Experience: 11 – 20 yrs; Employees: 30 – 40; Revenue: < £10m	17.	**Owner/Manager: Male** Age: 21 – 30; Education: Diploma; Experience: 11 – 20 yrs; Employees: 1 – 10; Revenue: < £ 500,000	18.	**Manager: Male** Age: 21 – 30; Education: Ass. Degree; Experience: < 10 yrs; Employees: 1 – 10; Revenue: < £100,000
19.	**Owner/Manager: Male** Age: 41 – 50; Education: Degree; Experience: 21 – 30 yrs; Employees: 11 – 20; Revenue: < £500,000	20.	**Owner/Manager: Male** Age: 31 – 40; Education: Degree; Experience: 11 – 20 yrs; Employees: 11 – 20; Revenue: < £250,000	21.	**Manager: Female** Age: 31 – 40; Education: Diploma; Experience: 11 – 20 yrs; Employees: 11 – 20; Revenue: < £250,000
22.	**Owner: Male** Age: 51 – 60; Education: Diploma; Experience: 31 – 40 yrs; Employees: 1 – 10; Revenue: < £250,000	23.	Manager: Female Age: 41- 50; Education: Diploma; Experience: 11 – 20 yrs; Employees: 1 – 10; Revenue: £250,000	24.	**Manager: Male** Age: 31 – 40; Education: Degree; Experience: 11 – 20; Employees: 1 – 10; Revenue: < £100,000
25.	**Owner/Manager: Female** Age: 41 – 50; Education: Ass. Degree; Experience: 21 – 30 yrs; Employees: 1 – 10; Revenue: < £500,000	26.	**Owner/Manager: Female** Age: 21 -30; Education: Diploma; Experience: 11 – 20 years; Employees: 1 – 10; Revenue: £250,000	27.	**Owner/Manager: Male** Age: 51 – 60; Education: Diploma; Experience: 31 – 40 yrs; Employees: 11 – 20; Revenue: < £500,000

Table 8.2b: Demographic and background analysis of interviewees

28.	**Manager: Male** Age: 41 – 50; Education: Diploma; Experience: 21 – 30 yrs; Employees: 21 – 30; Revenue: < £ 1m	29.	**Manager: Male** Age: 31 – 40; Education: Degree; Experience: 11 – 21 yrs; Employees: 1 – 10; Revenue: < £500,000
30.	**Owner/Manager: Male** Age: 61 – 70; Education: Diploma; Experience: 31 – 40 yrs; Employees: 1 – 10; Revenue: < £250,000	31.	**Manager: Female** Age: 31 – 40; Education: Degree; Experience: 11 – 20 yrs; Employees: 11 – 20; Revenue: < £500,000
32.	**Owner/Manager: Female** Age: 41 – 50; Education: Diploma; Experience: 11 – 20 yrs; Employees: 31 – 40; Revenue: < £ 1m	33.	**Manager: Male** Age: 41 – 50; Education: Diploma: Experience: 21 – 30 yrs; Employees: 21 – 30; Revenue: < £1m
34.	**Owner/manager: Female** Age: 31 – 40; Education: Degree; Experience: 11 – 20 yrs; Employees: 1 – 10; Revenue: < £ 250,000	35.	**Manager: Male** Age: 31 – 40; Education: Degree; Experience: 11 – 20 yrs; Employees: 1 – 10; Revenue: < £250,000
36.	**Manager: Male** Age: 31 – 40; Education: Higher Degree; Experience: 11 – 20 yrs; Employees: 1 – 10; Revenue: < £ 1m	37.	**Owner/Manager: Male** Age: 61 – 70; Education: Diploma; Experience: 41 – 50 yrs; Employees: 21 – 30; Revenue: < £10m

Table 8.2c: Demographic and background analysis of interviewees

8.3.1 Semi-structured interview questions

There are two basic analytical procedures in grounded theory, continuous comparison and asking of questions (Howell, 2003). This chapter focuses on interviews and the focus groups that enabled such continuous comparison and asking of questions. The researcher was able to ask questions based on the five categories identified in Chapter 7 as well as the results of the survey analysis carried out the chapter. These were general questions which the researcher drew from the data in order to stimulate further questions. All of these had the potential to produce additional categories, dimensions or properties (Howell, 2000).

8.3.2 Grounded theory version

This research was underpinned by a hybrid version of grounded theory which incorporated elements of the Glaserian, Straussian and constructivist versions of grounded theory. The data for this chapter were collected using the Straussian approach, whose coding process focused strongly on context, conditions, strategies of actions and interactions as well as consequences. This version espouses theoretical sensitivity. Its collection of data and analysis were also carried out according to the principles of open coding and axial coding, followed by theoretical sampling, emergence of theory as well as the process of abstraction, which is also part of the Glaserian version.

The preordained categories, namely, the five categories that were identified in chapter 7, as well as the categories that emerged through the coding of data during the interview and focus group were partially underpinned by the researcher's knowledge of the phenomenon that was being investigated. Such reality cannot be ignored in the development of theory and that gave the research a 'Straussian orientation'. This orientation permitted the use of a conditional matrix as well as theoretical sensitivity (Howell, 2003). It was also consistent with the constructivist methodological approach underpinning this research (Omery, 1983).

According to Rennie (1998), the Straussian version accepts the researcher's experience in relation to the phenomenon as legitimate empirical data. He also points out that constant comparison is perceived as similar as hypothesis testing, while the conditions that influence the phenomenon should not be restricted to those that arise from data. Furthermore, he is of the view that it is mandatory to apply an axiomatic scheme which converts social phenomena into process. The conditional matrix was, however, perceived as being of no help methodologically but merely able to suggest theoretical themes that were possible (Glaser,1992). However, the elements of the Straussian version were adopted for reasons stated above.

Furthermore, elements of constructionist grounded theory were also adopted as part of the research approach. Though a corporate-governance-centred study, the approach enabled the researcher to examine the phenomenon along with sustainability in the process of SMEs being managed by their owners as well as managers. As Creswell (2009) argues, constructionist grounded theory offers specific procedural directions. This enables the construction or co-construction of theory through the interactions of the researcher and participants (Bryant, 2002; Charmaz, 2006).

8.3.3 The nature of the semi-structured interview questions

The interviews were formal, semi-structured and drawn from the ten statements in the research questionnaire. In order to enable all the participants, receive the same questions, the questions were coded into the same categories presented in Chapter 7. Consequently, categories also emerged from the interviews as reflected in the results below. Theoretical sampling was introduced in this phase of the research in order to identify pertinent data which would assist in developing the emerging theory. This aided in elaborating and refining the categories that constitute the theory. This was achieved by sampling in order to develop the characteristics of categories until new characteristics ceased to emerge (Charmaz, 2006).

8.3.4 The interview questions

These questions aimed to ascertain the understanding of corporate governance and sustainability of the participants' who are SMEs owners and managers, as well as the applicability of such concepts to their firms. The researcher leveraged on the knowledge gained from the survey results in designing the interview as well as developing interview questions. It was noted from the survey results that the participants had limited understanding of the concept of corporate governance and sustainability. Consequently, in designing the interview, the researcher developed short notes to aid participants (see Appendix 2). Furthermore, the researcher decided against approaching the interview on the assumption that, being owners and managers, the participants should have certain levels of knowledge and understanding. Consequently, the questions were made simple and straightforward and sought to probe further into the answers already provided by the survey respondents. Below are the interview questions:

i. How would you explain the meaning of corporate governance?
ii. Do you consider a board of directors necessary or unnecessary, and what informs your position?
iii. Do you consider corporate governance necessary or unnecessary for running your firm?
iv. What are the specific reasons for which you think corporate governance does or does not apply to your firm?
v. Do you believe that corporate governance issues concern only senior management staff? If yes, why?

vi. What is your understanding of corporate sustainability?

vii. Are there other areas of your business besides environmental issues where sustainability applies?

viii. What relationship do you perceive between your firm's corporate governance practices and sustainability?

ix. How may your governance practices assist your firm in achieving sustainability?

x. Do you consider the size of your firm as a determinant of whether to consider governance principles or not?

8.4 The interview results

The researcher formally discussed the research with the participants prior to the interview. He informed them of the nature of the research as well as that of the interview. The discussion was made easier because interviewees had earlier indicated their interest in participating in the interview through the questionnaires which they had completed. Formal semi-structured interviews did not commence until the right dynamics had been established and there was what could be considered a free flow of information between the interviewees and the researcher (Riley, 1996).

Thirty-seven interviews were conducted and recorded. Glaser (1992) suggested that a researcher could transcribe only one interview in full and the others in part. One of the recorded interviews was transcribed verbatim in order to have a clear picture of emerging ideas (Creswell, 2014) and was analysed using NVivo. The idea behind using NVivo was in order to employ multiple tools and methods that are relevant to the research approach which would provide different perspectives on the data. In order to keep the interview findings contemporary memo and coding were carried out immediately after the interview. All the interview sessions commenced with a general discussion in order to acquaint participants with the nature, structure and approach before the actual interview was conducted. Participants were encouraged to relate their answers to their roles and relevant experiences.

Appendix 4 is the outcome of the NVivo application. Although the researcher preferred manual microscopic analysis and continuous comparison of data (Corbin and Strauss, 2008; Howell, 2013), he believed that employing multiple approaches towards analysing data provides multiple access to data, resulting in multiple perspectives on the phenomenon being investigated (Mills *et al*., 2006). Appendix 4 provides a snapshot of the analysis of the interview of one of the interview participants. NVivo processed the data using the terms 'governance', 'sustainability', 'size' and 'corporate governance' as key words in executing searches and conducting advanced searches. It broke up the interview data into 'nodes of interest', that is, 'packets' containing interview data related to the relevant concept being investigated.

The breaking up of the data enabled the researcher to discern the participant's perception of some concepts. The emphasis or lack of it also assisted the researcher in determining their theoretical significance. For example, in Appendix 4a, a search was carried out on corporate governance in order to ascertain the interview participant's views and understanding of the concept in relation to SMEs. A section of the right-hand side of the analysis presents a breakdown of the participant's views, some of which offer an insight into the participant's understanding of the concept. Regarding corporate governance and who it relateds to within the organisation, the participant considered it an issue and that it related to senior management.

8.5 Simultaneous analysis of results

Each interview was analysed and a memo that had codes and clarified ideas was written. The memo incorporated codes and also noted how interviewees acted and reacted during the interview. There were no telephone interviews. However, if the interviews had been conducted by phone the researcher would have had to record and code them. The data would have been analysed line by line based on the grounded theory traditions, which would have entailed initial open coding involving sorting out the memos and the recorded answers like-for-like based on the themes that emerged instead of on characteristics that were individual. This would have required one interview to be transcribed fully while the rest could have been done in part as the recording was being listened to in order to identify codes and themes (Glaser, 1992).

Some researchers have reported that in practice full transcription went on until they noted a consistent recurrence of themes at which point, they extracted, instead of developing, the entire range of codes that were possible. Consequently, the codes were grouped into clusters which could offer some conceptual value through the identification of similar patterns or those that were are different. If the volume of codes turned out to be high the need might have arisen to sort the data again so as to prioritise only those with explanatory power, while reducing the number.

8.6 Open coding

Collection of data and analysis in grounded theory takes place concurrently. There was a systematic collection and analysis of interview data. This aimed to generate understanding of the process (how) and the structure (why) that underpins SMEs governance. Open coding was employed in the analysis of the interviews, including the transcribed audio recording of an interview as well as the diary that was kept. Data were broken down into parts that were discrete. These parts were examined closely and were compared in order to ascertain their similarities and differences (Strauss and Corbin, 1998). The meanings expressed by the participants and their thoughts as well as ideas were uncovered through this process, thereby exposing meaningful data.

The researcher remained open minded in relation to the structure of the interview and its direction. This was in order not to force concepts into categories that were determined, but to enable them to emerge naturally (Glaser, 1992). At this stage concepts, "an abstract representation of an event, object, or action or interaction that a researcher identifies as being significant", are developed (Strauss and Corbin, 1998, p. 103). These concepts accurately capture participants' thoughts as well as the meanings made of a phenomenon by the participants, as developed by the researcher. In the course of the interview a number of concepts emerged as theoretical memos were being written on ideas. Simultaneously ideas were emerging alongside the relationship that existed between the codes (Razavi and Iversion, 2006).

The theorising, writing up of ideas in relation to substantive codes, is known as employing memo in grounded theory. It also includes noting relationships that are theoretically coded in the course of their emergence during the coding process as well as during the collection and analysis of data (Glaser, 1998). The researcher constantly compares incoming data. Concepts are compared with concepts as a way of identifying their similarities and differences (Strauss and Corbin, 1998). The emerging codes are tested in order to determine their theoretical relevance. Open categories are then formed from data that recur persistently from the collected data. Data that are considered important to the participants and found to be similar are put together to constitute open categories (Strauss and Corbin, 1990). Concepts that could stand in place of a phenomenon while driving conceptualisation to a degree of abstraction that is of a higher level is known as a category. There is a further specification of categories in relation to their properties as well as those properties' dimensions. This further classification constitutes part of the open coding process. The properties are characteristics relating to a category and the dimensions are the locations of the properties along the path of a continuum (Corbin and Strauss, 2008).

Data from the semi-structured interviews were subjected to microscopic (sentence-by-sentence) analysis (Strauss and Corbin, 1990) in the course of the interviews. Open codes resulted from the participants' responses to questions during the semi-structured interviews. Instructively, the emergence of the open codes and the interviewing overlapped. Using the words of the participants, the substantive codes in the manuscripts were identified by the researcher. Subsequently, the original transcripts were compared against a compiled list of codes. This assisted in ensuring the constant use of the code throughout the transcript analysis. Below are some quotes from the interviews that demonstrate how the concepts that emerged as well as the interview-questions-based category were presented.

Question 1:

Do you consider a board of directors necessary for a firm of your size?

Some of the views expressed by the participants are as follows:

> I will say that my **firm is this small** one. So, I will not say that at this precise moment that we do need **directors**. I am the **director** of **my own business** for now. It is not just for us maybe until about ten **employees** are added. (Owner/Manager: 02)

> I am unable to say something authoritative on such matter because I am not the **owner of the business**. However, we are a **small business** and I think that a **board of directors** is more **for businesses that are big.** (Manager: 05)

> I think so. With our **current size** and the type of issues that we face every day, **corporate governance** does not come to mind. In fact, when I hear or read about corporate governance, it is always about **big organisations.** (Manager: 14)

> Like I said, **size matters with governance**. It's like, your family now, you are alone, you are sufficient as the head to run the family, because it's just you, your wife and the kids. It's like saying: ‘okay, let's introduce **corporate governance** into the family now and bring two other people.’ So, when you want to eat, or when you want to buy food in the house, you will have to say: ‘okay, what can we buy?’ Then you start to

consult - that's not necessarily good. So, **size actually matters**, and looking at this firm now, like a family unit, you only **require one head to run it**, it does matter. When we start to grow, we start to have other stalls, branches, and then we will definitely need **corporate governance**, because at that stage we'll have lots of staff, we'll have **issues with policies, with government**, we're going to definitely need **corporate governance** at that level, but not at this level. So, **size does matter.** (Owner/Manager: 03)

Not very necessary. We are a **small business**. We are less than five years. We want to get things right but we are focused on the basics currently. Maybe in another five years when we must have grown, events would make us to focus on it. (Manager: 04)

The **board of directors** is important, but it's not necessary for this **kind of business**, for this level, the level at which you run this business. Because it's a **small business** really, and **all decisions, risk and actions** lie with the **single director**. Because the **structure of the firm** is such that it's just **one director and a secretary**, and the **director is also the manager**, so we don't really need a **board of directors**. (Owner/Manager: 18)

The researcher identified the following factors, among others: **small firm, directors, director, own business, employees, owner of the business, a small business, board of directors, for businesses that are big, board of directors, kind of business**, **small business, all decisions, risk and actions, single director, structure of the**

firm, one director and a secretary, **director is also the manager**, **board of directors.**

Further comparisons were carried out between these incidents and other interviews that were conducted based on question one. Those that were noted to have a similar relationship to a common theme were placed in the same group. They formed a commonality that was higher and referred to as a concept. The concepts that were found were placed in a category through open coding, as illustrated in Table 8.3 below.

Category	**Firm's size and governance** Concepts that are contained in the category	
Small firm Own business Board of directors Single director	Businesses that are big Kind of business Structure of the firm Directors	Employees Owner of the business Director as manager Corporate governance
Properties	**Dimensions**	
Small firm	Small	Large
Director as manager	Absent	Present
Board of directors	Absent	Present

Table. 8.3 The concepts and categories for question 1

Question 2:

How would you explain the meaning of corporate governance and its necessity in your firm?

Some of the responses from the participants are as follows:

The way I understand it is, the method of **running a business or an organisation** in which not just one person is involved, you have a group, usually called the board - **the**

board or the **management committee**, or something like that. And they meet from time to time to **review your personal issues** and then they **consider also the developmental growth of the business**. (Owner/Manager: 11)

The way I understand corporate governance, it has to do with the **running of organisations**. Usually, it **has to do with big firms**. We are a **small firm** so we don't really look in that direction. I think that it relates more to **the way large organisations manage their business**. (Owner/Manager: 31)

Corporate governance is usually **related to big organisations**. Of course, corporate governance issues always come up when there are **problems in big organisations**. You read **about fraud**, you read about **management not providing proper account of the organisation**, you hear **about accounts being overstated**. (Manager: 35)

I was saying, corporate governance can be looked at in two ways. Sometimes it **runs from the top to bottom**. From the **chairman to the board of directors, down to the managers**, and then to operational staff. What I remember from my work experience that in some cases they actually work from bottom up, where when the decision is about to be taken, they call the rank and file, then they start to weed out some of their thoughts and ideas until they move up and up and up, until they finally arrive at the **final decision**. (Manager: 30)

> I have never thought about it. Thinking about it now, our **business is small** and we can’t afford to add such cost on it in the form of having a **board of directors** and all what not. Now that we are having this conversation, maybe I will begin to give it a thought. (Owner/Manager: 37).

> If it is what I understand it to mean, it makes sense. To **practise** that in a **business like my own which is small** is something I have to think about. Presently, my business is not doing badly though things are tough. Therefore **I won’t consider corporate governance necessary** in running my business. Things are just okay as they are at the moment in terms of running the business. (Owner: 08)

> It's not like corporate governance is a bad thing entirely. There are things, there are organisations where, if you don't have corporate governance, it would be **a problem to actually run** them, but **in my own circumstance, it would not be necessary** - it would not be necessary. (Owner/Manager: 33)

The factors which the researcher identified, among others, are: **running a business or an organisation, the board, management committee**, **review of personal issues, consider developmental growth of the business, related to big organisations**, **problems in big organisations, about fraud**, **management providing proper account**, **accounts being over-stated.**

The researcher carried out further comparisons between these factors and those referred to in the other interviews that were conducted using question 2. Those that were noted to have a relationship to a common theme were put in the same group. They formed a common concept and a subsequent category reflected in Table 8.4 below.

Category	**Importance of corporate governance principles** Concepts that are contained in the category	
Running an organisation Board of directors Management committee Manager	Developmental growth of business Management providing proper account Accounts being over-stated Final decision	Small business Practice
Properties	**Dimensions**	
Management committee	Absent	Present
Management providing proper account	Negative	Positive

Table 8.4 The concepts and categories for question 2

Question 3:

Why do you think that corporate governance applies or does not apply to your firm?

> **Corporate governance** does not apply to **my business** in that sense that it applies to big businesses. I own and run my business. We are small. We can't be thinking of a **board of directors** with our **present size**. That will be **overloading the business**. (Owner/Manager: 23)

> That's a complicated thing for the **size of our business**. **Bureaucracy** will also come with it which may weigh on our business. It may disrupt our business. **Corporate governance** is a good idea, no doubt. In terms of **doing things properly**, I am all for

it. We have **our ways** of making sure that things are properly done, that **records are properly maintained**, and all that. Therefore, in that sense, **corporate governance** is good for my business. (Owner: 01)

You mean, things relating to how we run the business? How we **manage our staff**? How we comply with all these **regulations**, **environmental issues**, **data and confidentiality, employment laws and other laws**? We are a small business and we do our best to keep up. Of course, we are a small business. We don't have very good knowledge of all of these so we hire consultants and auditors to help. Isn't that the idea? (Owner/Manager: 28)

I sincerely don't believe that **corporate governance** applies to this business. I don't really understand what it means. From explanations I have heard our **business is really small**. We have only been on for about three years. The **business is growing** but we are **not big enough** for such big ideas. (Manager: 26)

I am not very sure what **corporate governance** means. We are a **fairly new** and **small business**. It is not something I am aware of or discuss with my boss. (Manager: 36)

The way we run the business. It's not just about profit. We have to protect our business and its secrets. I don't mean negative things as secret. I mean those things that give us some advantage. We also have to be transparent at the same time. There are **regulations, laws and charges** we have to deal with. We have to **take care of our staff**, we have reports that regulators demand if they should come in here now. These are the things I relate with governing my business. (Owner/manager: 21)

Category	**Application of corporate governance principles** Concepts that are contained in the category	
My business Board of directors Manage staff Overloading the business New business	Size of business Bureaucracy Corporate governance Doing things properly Regulations	Our way Records properly maintained Small business Growing business Applicable laws
Properties	**Dimensions**	
Board of directors	Absent	Present
Doing things right	Negative	Positive
Overloading the business	Small	Big

Table 8.5 **The concepts and categories for question 3**

Question 4:

What do you understand sustainability issues to mean and how do they apply to your firm?

> I guess that relates to what **thoughts, policies or practices are in place to sustain** the core business or your core function. That's the way I understand it. (Manager: 34)

> We have policies in place that are aimed at sustainability. We receive fliers from time to time on sustainability. We work as a team in the business to achieve good results an (Owner/Manager: 12)

> Well, sustainability, from its name, means what I have to do in order to **sustain my business**. In practice I know that it is about **conserving resources**, making sure that we reduce waste. All of that **helps the business.** (Owner/Manager: 20)

Sustainability has to do with **things related to reducing cost of doing business** and **preserving the environment**. Doing things that are **environmentally friendly**. Things that **reduces our carbon emission**. Those are the things that I relate to sustainability. (Owner/Manager: 13)

Well, the way I understand it is, if you ask me now, sustainability concerning this business, to me what's the **future of this business**? How in the **next few years, what plans and policies are in place** to make sure the **business carries on**? That's the way I understand it. (Owner/Manager: 09)

I think sustainability in my business centrally relates to how I am able to **keep my business going**. Sustainability should be about those **things we do here that helps us continue to exist** as a business, **our business practices.** (Owner/Manager: 33)

Sustainability has to do with the **ways we keep our business going**. What are the things we do correctly? Yes, we do environmentally friendly stuff, however, that is as a result of **policies we have in place**. Such policies also extend to HR, use of products, safety practices etc. (Manager: 15)

We practice sustainability as best as we can. I won't say that we are big on it. **We just get on with it** (Manager: 22)

We are a small business. I believe that we practise some of these things. If I am talking about sustainability in my business, it is about **making sure that my business keeps going**. Therefore I am talking about practices that will keep my business going. (Manager: 19)

What I consider sustainability to mean is **doing business in ways that will help the business to survive** and also **save the environment.** (Manager: 29)

That means **sustaining a business**. Having **plans and strategies that will help the business survive**. I know in recent times we now add the **issues of the environment** to it. In the business now, we recycle, we look for options that are environmentally friendly. Now we are more **conscious of waste.** (Manager: 17)

Category	**Sustainability's significance** Concepts that are contained in the category	
Thoughts, policies and practices to sustain the business Conserving resources Reducing cost of doing business Environmentally friendly Conscious of waste	Next few years' plans and policies Future of this business Business carries on Business practices Policies	
Properties	**Dimensions**	
Thoughts, policies and practices to sustain the business	Absent	Present
Reducing cost of doing business	High	Low
Environmentally friendly	Absent	Present

Table 8.6 The concepts and categories for question 4

Question 5:

What relationship do you perceive between your firm's corporate governance practices and sustainability?

> I don't think there is any relationship, per se. I don't think there's any relationship, because we are like down the ladder, when it comes to **sustainability issues**, we are retailers. When it comes to **whatever would affect the firm,** it will be very minute in a way. For instance, if the particular species of fish now is no longer available, maybe because it becomes endangered, people will readily switch to substitutes. So, it's not an issue for us. (Manager: 27)

> **Corporate governance**, where it is practised, helps the **business to run properly**. Of course, we read of **corporate governance** in the newspapers when there is **fraud and wrong doing in a business**. I think that **corporate governance** may **help a business do well**. And that is what I understand **sustainability** to involve. (Manager: 06)

> If we **run our business well,** it will be sustained. Running our business well means that we **do the right things** that we have to do. If we have a **transparent system** in place, that will **deter things like fraud**. Staff will come in and clock in the right time. We **set up a good record-keeping system**. Our **auditors come in and provide us the required reports**. These will help **sustain the business.** (Owner/Manager: 07).

> Well, I don't think there's any. No, I don't think there's any. If I may use this example, I'll still use fish as an example, people now don't want to eat farmed fish,

because of social media campaigns, and all the stories about things coming from China and fake items, and they don't want to eat. We often have ‘this is ocean-caught’, ‘this is farmed’, people always go for the ocean-caught one, because they are free of the kinds of practices involved in farming some of these fish. I think that will have **an impact on the environment**, will have an **impact on sustainability**, but still, like I said, it's still very little. (Manager: 16)

Actually, I have never thought about that. However, if we have to **sustain our business** then we have to **do things right**. We have to have **proper procedures in place**. We have to source for **the right products through the right sources**. We have to have the **right practices** in place. It is a bit difficult to talk about **corporate governance** here because of our size. However, these are the kinds of things that we have in place in managing our business. (Manager: 32)

I wouldn’t say that my firm is into **corporate governance,** although there may be certain things which we do that are **corporate governance practices**. **Sustainability**, yes, we practice **environmentally friendly practices**. Somehow, they relate to **the way that we run our business.** (Manager: 24)

Category	Corporate governance link to sustainability Concepts that are contained in the category	
Sustainability issues Whatever would affect the firm Corporate governance Business to run properly Fraud in business Proper procedures Right products from right sources	Environmentally friendly practices Way business is run Run business well Transparent system Deter fraud Right practices Impact of sustainability	Set up good bookkeeping Auditor's visit Sustain business Impact on environment
Properties	**Dimensions**	
Business to run properly	Negative	Positive
Auditor's visit	Negative	Positive

Table 8.7 **The concepts and categories for question 5**

8.7 Analysis of focus group discussion

After introductions the discussion commenced with a question regarding the importance of corporate governance. A participant asked what participants thought about corporate governance and whether they thought it was needful in their firms. Another participant asked a second question regarding how participants thought corporate governance may be of help in dealing with problems faced by their firms. The last question came from a participant who noted that since she was approached for this research, she appeared to be taking more interest in the issue of sustainability. She asked whether participants viewed sustainability as an end that needed to be achieved or as an ongoing phenomenon. These questions engaged the group and offered participants an opportunity to discuss their views regarding issues pertaining to SMEs, experience of managing their firms as well as practices that may help them achieve sustainability. Finally, participants were asked to reflect on the entire research process with a view to highlighting things they felt could have been done differently as well as things they perceived to have gone well. Table 8.8 below contains the schedule of the focus group participants.

01.	**Manager: Male** Age: 31 – 40; Education: Diploma; Experience: 11 – 20 yrs; Employees: 21 – 30; Revenue: < £1m	02.	**Manager: Male** Age: 41 – 50; Education: Diploma; Experience: 11 – 20 yrs; Employees: 21 – 30; Revenue: < £500,000	03.	**Owner/Manager: Female** Age: 31 – 40; Education: Degree; Experience: 11 – 20 yrs; Employees: 1 – 10; Revenue: < £100,000
04.	**Owner/Manager: Female** Age: 31 – 40; Education: Degree; Experience: 11 – 20 yrs; Employees: 30 – 40; Revenue: < £10m	05.	**Owner/Manager: Male** Age: 21 – 30; Education: Diploma; Experience: 11 – 20 yrs; Employees: 1 – 10; Revenue: < £ 100,000	06.	**Manager: Male** Age: 21 – 30; Education: Ass. Degree; Experience: < 10 yrs; Employees: 1 – 10; Revenue: < £100,000
07.	**Owner/Manager: Male** Age: 41 – 50; Education: Degree; Experience: 21 – 30 yrs; Employees: 11 – 20; Revenue: < £500,000	08.	**Owner/Manager: Male** Age: 31 – 40; Education: Degree; Experience: 11 – 20 yrs; Employees: 11 – 20; Revenue: < £250,000	09.	**Manager: Female** Age: 31 – 40; Education: Diploma; Experience: 11 – 20 yrs; Employees: 11 – 20; Revenue: < £250,000

Table 8.8: Demographic and background analysis of focus group participants

8.7.1 Corporate governance and its needfulness to SMEs

Some participants noted that they had heard of corporate governance before this study, however, they never gave it serious thought until they began to participate in this study. Some participants considered that the phrase ‘corporate governance’ came across as being unduly formal in relation to the nature of their businesses and their activities. When asked if they could have related to it better if the concept were referred to by another name, such as small medium enterprise governance (SMEG), they answered in the affirmative. One of the participants commented that:

> Though SMEG also looks formal just like corporate governance I can make sense of what SMEG implies from the name. Corporate governance looks formal and more difficult to relate to what we do and what I know. It is usually when I read the newspapers that I come across it by some chance, it will be in relation to big companies. (Manager, 02)

Some of the participants noted that they had a somewhat better understanding of corporate governance having been part of this research. Consequently, they were better able to relate to it and bring it into the context of their activities. One participant opined that:

> Rule-setting, for instance, is an important part of my activities that relate to corporate governance. If I get it right in that aspect of my business it is likely to touch on virtually everything from my bookkeeping to my recruitment and many other things. That way it makes a lot of sense. (Manager, 09)

When one participant raised the issue of board of directors another noted that his business was still young that it would look over-ambitious of him to imagine having a board of directors. Another participant was of the view that the idea appeared fanciful. He went on to add that a board was not his priority at that time. When the researcher asked why, he explained that nothing at that moment or stage of his business pointed to the need to have a board of directors. An *in vivo* code of one participants' view was as follows:

> I have a large network of friends and other people in similar businesses as well. So, we do have our meetings where we can bounce off ideas from each other and discuss. (Owner/Manager, 03)

The researcher asked the participant whether she found such meetings useful and why. She affirmed that such meetings were very useful, and pointed to instances when a friend's specific business experience helped her deal with similar issues in her own business. She was asked whether a board of directors would serve a similar purpose and beyond. Her response was 'yes', however, she quickly added that it could slow her decision-making, influence her independence and incur cost.

8.7.2 Benefits of corporate governance in dealing with problems of SMEs

The participants acknowledged that there were practices related to corporate governance occurring in their businesses. However, they felt the term 'corporate governance' was 'over-sized' in relation to the size of their firms. One participant (Manager, 09) believed that some of the practices within her firm could come under the heading of corporate governance. However, she would not say that she adhered to corporate governance principles as she was not really conscious of the concept. Another participant noted that:

> In my business it's myself, my wife and one employee. One can say that we almost run a flat structure. By law we have a director, myself, and a secretary, who is my wife. Our turnover is about £100,000, though in a very good year we could go above that. Keeping out accounts properly is very helpful. I believe that is part of corporate governance. Making sure that necessary returns are made, which is about transparency, is also helpful. That is also corporate governance. Having clear

> operations and rules that are lawful and help all of us do our jobs is also helpful. I believe that also is a corporate governance issue. Now bringing in something like a board of directors will overstretch things. (Owner/Manager, 05)

As the discussion continued one participant (Owner/Manager, 04) opined that corporate governance was not something popular among businesses like her own. She went on to add that if the practices related to corporate governance were outlined in simple detail, there were chances that SMEs would practise them. That would enhance the possibility that SME owners and manager would relate better to the idea as well as the likelihood that those studying the idea, as in this research, would be able to obtain more information and offer more advice.

8.7.3 Corporate governance and sustainability as a means or an end?

The discussion commenced with an effort to clarify what sustainability really meant. Initially the discussion focused on the environmental dimension of sustainability and gradually brought in other elements as well as issues concerning it. Most of the participants were of the view that the popular perception of the word ‘sustainability’ relates to sustaining the environment. One of the participants (Manager, 01) pointed out that most of the information he had on sustainability related to the environment and waste. Most other participants agreed, noting that most of the promotions and information available related to recycling and minimising environmental degradation as well as reducing consumption of consumable office materials. Two of the participants (Manager, 06; Owner/Manager, 08) linked sustainability to business practices because in the course of being environmentally conscious through actions, such as recycling and installing efficient equipment, they could appreciate how it impacts on their bottom line. One of them noted:

> I have been in business for over 30 years. We run a printing firm. When I started hearing about sustainability most sources and materials addressing it linked it to the environment. Then we started receiving advice on managing our resources and waste disposal. We were given guidance on all these colour-coding for waste disposal. Gradually we went into efficient energy consumption and other things. Over time I noticed that we were saving cost. (Owner/Manager, 08)

The second participant noted:

> I had similar experience. We have learnt so much over time. We always try to consider the environment in our decisions and while we are doing business. My business is young, otherwise we would have documented all of these properly. I guess a board of directors would have compelled us in that direction. (Owner/Manager, 07)

8.8 Discussion of the properties and dimensions of the open categories

This section discusses each open category in detail based on the views of the interview participants. Instructively, not all of the concepts that have been identified in all the categories will be discussed. This is because some of them do not appear to have much theoretical significance in the context of this research. Consequently, the concepts that are perceived as being theoretically significant are discussed in detail. The five categories based on the ten questions that were asked are as follows:

8.8.1 Firm's size and governance

The size of a firm and its governance were issues which the research participants constantly referred to in seeking to answer questions directed at them, addressing issues relating to SMEs, the issue of corporate governance in SMEs and its relationship to the concept of sustainability. The size of their businesses was perceived by those participants in many instances as a key determinant of whether corporate governance was relevant to their businesses or not.

Beaver (2003) points out that while establishing a relationship between a firm's size and its governance, a firm's size is an indicator of the funds available to it and the style of management it may adopt as well as its objectives. Consequently, governance, in the view of Dalton *et al*. (2003) entails the determination of the uses that an organisations' resources are put to as well as resolution of conflicts that may arise. Governance goes with societal autonomy (Hysing, 2009), with an attendant expectation that governance would be transparently accountable. The expected outcome would be social and economic advancement (Goldsmith, 2010).

A **firm's size and governance** emerged in the course of data analysis as an open category. The properties and dimensions, which are discussed in detail below, explained this open category

i. Small firm

'Small firm' reflects the size of the firms that participated in this research. This study is focused on SMEs, a team which has different definitions that are dependent on the number of employees which such enterprises have (IoD,) their annual turnover or market capitalisation (Clarke and Klettner, 2009). Based on the statistics of the firms whose owners and managers participated in the research, none of the firms had a turnover as great as or more than $10 million, and none of them had as many as or more than 20 employees. Consequently, they fitted the definition of a small firm under the classification SMEs.

The data generated revealed that all of the businesses were diverse and constituted small firms in the private sector. From the responses the researcher noted that participants were very conscious of their firm's size in relation to the issues under consideration. In relation to corporate governance, the majority of participants believed that the size of their business, among other reasons, would prevent them from buying into or introducing such innovation. They were concerned about the inherent bureaucracy it might entail, the cost of maintaining such innovation and the impact on their pace of doing business, among other reasons. One participant noted:

> Bringing corporate governance into my business is something that may be interesting. Good idea. But have I got the resources, the money to sustain it? This is the kind of thing I will have to consider. (Owner/Manager, 04)

Another participant was of the following view:

> I hear about corporate governance. Look at the kind of business that I run. Does it look like I really need all of that? It is going to cost me money. From time to time I will need to consult with some other people, if I have directors. Wouldn't that slow down my business? I won't be able to make some decisions, just like I do now. We have been here for years and doing pretty well and we don't know much about corporate governance. (Owner/Manager, 07)

Some of the participants reacted positively in discussing the concept of corporate governance. Although they expressed concern about how corporate governance principles may impact on their businesses due to their size, they did not dismiss the idea. They believed that at a later time when their businesses had grown, they would be able to implement ideas related to corporate governance. One participant argued that:

> … when my business grows and begins to employ as many as 20, 30 people or more, that may be a good time when we can think seriously about corporate governance in the business in the way you are looking at it. Perhaps we will get a consultant to advise us about corporate governance. Right now, we are doing just fine. (Owner/Manager, 05)

ii. Director (the owner) as manager

The idea of a director who owns an SME playing the role of manager appears to be common in SMEs. Interestingly, all the firms that participated in this research fitted into the ‘small’ element of the definition of SMEs by virtue of their annual turnover as well as their number of employees. Consequently, the phenomenon of the owner also being the manager was prevalent. Theoretically, the stewardship theory considers that the interests of the steward, i.e. manager, are aligned with those of the firm and its owner, who is the principal (Albrecht *et al*., 2004). However, agency theory on the other hand assumes that the principal, i.e. the owner, and the agent (manager), have different attitudes towards risk (Eisenhardt, 1989). It also assumes that the principal and the agent have different goals and interests (Jensen and Meckling, 1976).

The findings of this study reveal a situation, in some cases, in which the owner of the business (director) played a dual role of principal (owner) and steward/agent (manager). This shows that SMEs may create situations where the stewardship theory and the agency theory appear to be coincidental. Figure 8.1 below reflects three governance systems that were found in SMEs in the course of this research.

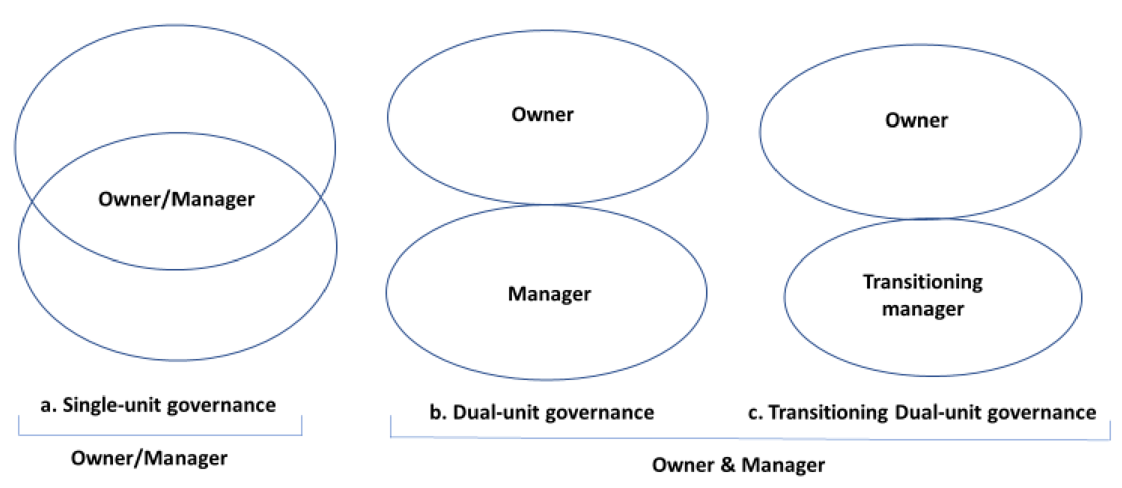

Fig. 8.0 Models of governance in SMEs

Figure 8.1 (a) appears to be the most prevalent model of governance which this research identified in small businesses. Under this model 40.54 per cent of the SMEs that were surveyed were being run by an owner/manager; 54.05 per cent were being run an owner who was actively involved and employed a manager to assist in running the business; and 5.41 per cent of the firms were noted to be run by an owner who was less active, while a family member who assisted in managing the business was in the process of taking over the business. What is significant about this finding is that it relates to the single-unit governance system {Fig. 8.1 (a)}. The positions of ‘owner’ and the ‘manager’ are occupied in this model by the same individual. This makes the stewardship theory and the agency theory coincidental with respect to the single individual playing the dual role of owner/manager.

The researcher also noted three phases of evolution in the course of small business growth: the ‘early life’, stage where the business is owned and run by the owner; the ‘mid-life’ stage, where the owner either continues as the owner/manager or employs a manager who assists him; and the ‘mature life’, where the owner either transfers the ownership of the business to a family member or sells it. The study noted that the route a small business follows in this transition is dependent on the nature of the business, its growth and size as well as its location. The model in Figure 8.2 below reflects this finding.

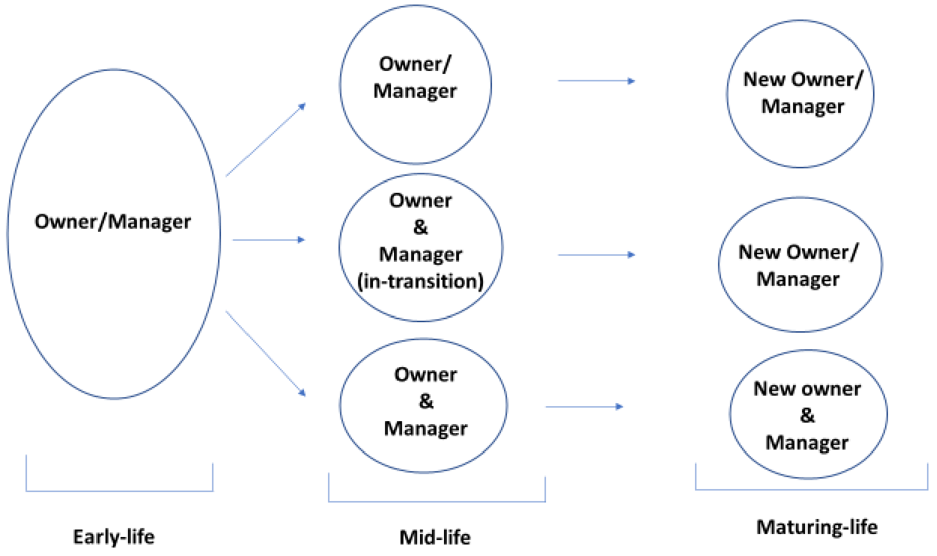

Fig. 8.1 The three dimensions of early stages of SMEs governance

The benefit of the participating SMEs' small size was emphasised at every opportunity by the participants during the interviews. This was linked to the structure of their particular business as well as flexibility and bureaucracy. The participants appeared very comfortable with the owner/manager or the owner and manager structure. The idea of independent governance through a board of directors appeared interesting to some of the participants. However, a majority of them felt that it would add to their bureaucracy, increase their cost and reduce their flexibility. One participant had this to say:

> I own the business and I manage it. All these ideas about corporate governance will only add to my cost. I can't afford that kind of cost presently. If I bring in some directors and the procedures that will follow, wouldn't it slow down my business in some sense? I am happy with the way things are. (Owner/Manager, 08)

Another participant was of the following view:

> The idea of corporate governance is something I don't really understand and have never thought about. I am the owner of my business and I have run it successfully for about seven years now. During these years I have not really found any need to employ a manager as it will cost me money. I have about four staff, and we are able to run the business properly and make a profit. We have our procedures, and I have not seen any reason to make me believe that they are not working. When we find any reason to make changes, we always do. (Owner/Manager, 05).

Most of the participants were either managers or owner/managers. The participants who were owners-only were noted to be those who were transitioning to retirement from the business and had a family member who was taking over the business, acting as manager. In summary, all the SMEs that participated had a single director (i.e. owner). They either employed a manager as the business expanded or handed it to a family member to manage prior to retirement. Some of the participants who were still managing their business actively talked about the possibility of selling the business at a later stage.

iii. Board of directors

The board of directors is a key concept in corporate governance. Parum (2006) points out that corporate governance is a set of principles that relates to the governance of organisations. For his part, Mulherin (2004) is of the view that, when corporate governance is considered narrowly, it refers to a firm's internal organisational devices, such as insider ownership and the board of directors. As Nwanji and Howell (2007a) argue, ensuring that the board of directors do their job of running the organisation properly is one of the issues at the heart of corporate governance. All of these, in the view of the researcher, place the board of directors and its activities at the heart of corporate governance. In addition, they suggest that the job of the board of directors is ensuring good governance within the firm.

One of the participants opined that:

> I do not see the need for us to have a separate board of directors to make decisions because, to me, it would be just too much protocol. (Owner/Manager, 05)

Another participant similarly felt that:

> The board of directors is important, but it's not necessary for this kind of business, for this level, the level at which we run this business. Because it's a small business really, and all decisions, risk and actions lie with the single director. (Owner/Manager, 03)

The researcher questioned the participant further on whether the notion that others may contribute ideas, which may involve risk, while the risks and their consequences are left solely to the director (owner/manager), informed his position. The participant who happened to be an owner/manager said:

> That is part of why I am not interested in the issue of board of directors. No doubt, some people will do it very well to the benefit of my business. What about someone who creates more problems for me? I ‘d rather not have a board. (Owner/Manager, 08)

When the researcher asked for other reasons that might have also informed his position, the participant stated that:

> I can decide on things really quickly. I can change my mind instantly when and where I find the need. If I have a board of directors, there may be things I have to make them aware of, otherwise they may feel that I am making them irrelevant.

The view of the participant referenced above appears to mirror the issue of principal-agent conflict under the agency theory. The agency relationship is a situation in which one or more individuals (the principal) engage another individual (the agent) to perform services on their behalf. This involves delegation of duties and authority relating to decision-making (Jensen and Meckling, 1976). What is unique in the findings of this research is that the agency-related issues being raised by SMEs owners related to the board of directors instead of the management, on which it theoretically focuses (Eienhardt, 1989).

8.8.2 Importance of corporate governance principles

There are various ways which the purpose of corporate governance could be perceived (Zahra, 2014). Corporate governance is a systemic way in which a firm is directed and controlled (OECD, 2004). It relates to dealing with the ways that parties who supply finance to an organisation ensure that they receive returns on their investment. As Nwanji and Howell (2007a) note, corporate governance in organisations where ownership and control are separated focuses on the control of the self-interest of executives and also on the protection of the shareholders' interests. Tricker (2008) emphasises this further, arguing that corporate governance is a process of supervision of managerial actions, accountability to shareholders as well as setting of strategic directions.

i. Management committee

The purpose of corporate governance involving the relationships at the top of an organisation is an interesting issue. Corporate governance is viewed as encompassing issues that relate to the relationship between a firm's owners, board of directors, the top management team (TMT) and the CEO (Monks and Minow, 2004; Keasey *et al*., 2005). This brings to the fore the idea of a management committee, which was mentioned by participants during the interviews. One participant referred to a management committee in the course of explaining the idea of a board of directors.

The owners who were interviewed did not sound enthusiastic about having a board of directors. Some of them saw it as an idea of the future when their businesses have grown. Some others made mention of ideas that pointed in the direction of a management committee. One of them said:

> … perhaps, a bunch of friends who have ideas on the type of my business advising me? That is the closest to a board of directors that I can imagine now. I really can't see how my business, as small as we are now with four members of staff, will have a board of directors. (Owner/Manager, 08)

In the words of another participant:

> I have a group of colleagues in the same business that we share ideas. That is my own ‘committee’ for discussing issues and getting ideas. I guess that’s the kind of thing you mean when you talk of the benefits of a board of directors. The good thing in my case is that it is free. We are not under any pretences. We meet often for a drink and we share our experiences. I must confess that it has been very rewarding to me. (Owner/Manager, 08)

Another participant was of the following view:

> No! All these ideas are not for me at this time. They look like very complicated things for this small business that I am running. You ‘ve got a point there that a board of directors may bring some benefits to the business. I meet regularly with my manager and supervisor, a sort of committee, and we discuss and review things. I also meet with the whole team. These arrangements have served my business well. (Owner/Manager, 05)

On the same issue a manager responded that:

> Such things are up to the owner. At the same time, I still have regular meetings with him, a sort of committee thing, if you like. We discuss issues and plan how to manage the business. (Manager, 09)

ii. Management providing proper account

The issue of providing proper account and transparency in relation to managing a business was significantly highlighted by the interview participants in different ways. This was addressed from different perspectives, such as owner/managers identifying it as a necessity for their businesses to succeed and endure; some mentioned the idea in relation to their expectation of the value which a board of directors might bring to their business, should they choose to have it; some others discussed is as a business imperative necessary in all facets of the organisation, including keeping to regulations. In the view of Mallin (2007), ensuring corporate accountability is a key focus of corporate governance.

Corporate governance is viewed by the World Bank (2013) as involving regulations and incentives through which the management of a firm is controlled. As Nwanji and Howell (2007b) argue, the role of corporate governance is to make sure that the board of directors carries out its responsibility to ensure that the business functions properly. Therefore it could be argued that part of what the directors are responsible for is ensuring transparency where it is required and that the firm's accounts are properly kept.

Management providing proper account was identified as a property of 'understanding of corporate governance and its importance' in the open-coding process. The SMEs that participated in the interviews provided various perspectives on the issue of proper accounting as it related to their business. One business owner was of this view:

> Besides the board of directors slowing down my business, what happens when their ideas expose me to risk? As I am now, I know when to be careful so that my business

> is not exposed to anything or any idea that I am not sure of. A director may mean well, but I don’t think that a director would ever be as sensitive in my business as I am. (Owner/Manager, 07)

Another participant noted:

> I know that a board of directors helps a business. They are not just there for the name and to get paid. They will give my business advice, they will ask questions on how we do things to enable them give us such advice. That is a good thing, which will keep us on our toes, but how many are we here at the moment? Just the five of us. (Manager, 01)

One manager was of the following view:

> Record keeping is very important to me because my boss always ask for it. We also show them to the regulators when we have to. If the records are not properly kept, my boss won’t be happy, and it will reflect poorly on me and the business. It may appear like I am doing shady things. That is how I am able to monitor the other workers that I supervise. We also have to be mindful of the information that we give out as a business, our trade secrets that we have to protect. As you talk of the board of directors, they will be asking questions about our records from my boss, if we had a board. (Manager, 06)

Another participant was of the following view:

> We are completely transparent in doing things. I expect transparency from my staff so I have to show an example. Of course, you know there are data laws which we have to follow, on one hand. On the other hand, there are also regulations which we have to follow. In all of these, we have to manage information that is very important to us very well. We are in a competition. (Owner/Manager, 04)

Based on the views of the participants, SME owners and manager accorded strong value to proper record-keeping, accountability and transparency. They demonstrated awareness that if they had boards of directors, it would be a thing of concern to the board. The participants were very clear about their need for proper record-keeping and transparency. However, they were not enthusiastic about the relationship with a board of directors.

8.8.3 Application of corporate governance principles

The researcher sought to ascertain whether corporate governance principles were being applied in SMEs and in what ways. Interestingly, while the respondents acknowledged that they were not consciously and explicitly pursuing corporate governance principles, related issues were identified. They were either being addressed by SMEs or SMEs had concerns about such issues:

i. Board of directors

Most of the participants demonstrated awareness of the meaning of a board of directors and their role in an organisation. However, a significant number did not demonstrate knowledge of the relationship between corporate governance and a board of directors. Interestingly, SME owners and managers had positive views about the idea of a board of director, but many of the participants did not see the need for one in their own businesses.

In the view of Mallin (2016) corporate governance deals with ways in which suppliers of finance to firms ensure that returns are made on their investments. The OECD (2004) is more pointed in its explanation of corporate governance. It points out that corporate governance involves a set of relationships with respect to a firm's management: board of directors, shareholders and stakeholders. It also points out that these relationships provide the structures through which the firm's objectives are pursued and performance is monitored. Corporate governance also involves influences that may impact on the institutional processes of a business. Such influences may include the appointment of the organisation's controllers and regulators who may be involved in its processes (Ahmad and Omar, 2016). A focus of corporate governance, as Nwanji and Howell (2004) put it, is ensuring that boards of directors do their jobs properly.

One participant was of the view that:

> I have never thought about a board of directors for this business. I have never heard my boss say anything about that either in discussions I have with her or discussions

she has with anyone. It sounds posh, but I really don’t see how it comes in here. We are doing fairly well without one. (Manager, 01)

Another respondent opined as follows:

> I know the type of positives things a board of directors may bring to my business. Although I have not thought about having a board, I don’t think my business is ready for one right now. We are not doing badly right now, so I don’t really see any need to change my team or formula right now. (Owner/Manager, 04)

In the view of another participant:

> No, that’s not important right now. That will add more burden to my business. What I need now is ways to reduce my cost, not increase it. A board may bring ideas down the line, but it will bring cost immediately. (Owner/Manager, 05)

ii. Doing things right

All the participants were very concerned about getting things right. They wanted their business to succeed and they were of the view that doing the right things properly was fundamental to their success. Due to the diverse nature of their businesses, doing the right thing had different dimensions and different implications. There was the dimension of doing the right thing in terms of developing the right policies. There was also the dimension of doing the right thing in terms of implementing policies and day-to-day running of the business.

Corporate governance relates to how organisations could improve corporate accountability such that managers are made accountable for their firm's performance (Keasey *et al*., 2005). From Zahra's (2014) perspective, corporate governance relates to those questions regarding in whose interest and how the business is being run. Nwanji and Howell (2007a) are of the view that corporate governance offers guidelines on best practice that ensure an organisation's assets are properly used.

The responses received during the interviews clearly showed that SMEs have a very strong desire to do things properly. One participant noted that:

> I bear all the risk in this business. I have invested my personal money and I have also taken some loan to support the business. I want to succeed. I want to have the right strategy for the business. (Owner/Manager, 03)

Another participant was of the following opinion:

> Over time we have set up procedures for doing things in our business. I guess that is part of corporate governance. For us, any strategy that helps us to succeed is welcomed. We always look out for the best way of doing things. We discourage cutting corners strongly. When you cut corners, customers will find out sooner or later or the law may catch up. Both ways, it's not good for any business. (Manager, 09)

Similarly, another participant noted that:

> It is more important to me that things are properly done now that I am participating less in the business. One can't get things wrong by doing things the right way. If the business continues doing things this way long after I have left, it will endure. It becomes a legacy. (Owner/Manager, 05)

iii. Overloading of the business

There was a concern about overloading the business expressed by some participants. While it related to SMEs concerns over taking on things that would weigh heavily on their businesses, the introduction of a board of directors was viewed in that light.

The concern of SMEs about being overloaded was consistent with the concept of corporate governance. A study has shown that corporate governance simultaneously involves practices such as accounting, finance, business law, ethics, management, economics, business law (Ahmed and Omar, 2016). In another study, Zahra (2016) is of the view that corporate governance has to do with questions regarding what a business is for. Similarly, in the view of Dalton *et al*. (2003) corporate governance involves the outline of areas in which an organisation could apply its resources. All of these views appear to suggest that governance of an organisation has a responsibility to ensure that its business is defined and focused.

A view expressed by one of the participants went thus:

> We are a new business. We are small. We have made progress and we expect more growth in the future. However, we take steps that are measured in order not to bite off more than we can chew. (Owner/Manager, 05)

Another respondent argued that:

> The idea of a board of directors is interesting. Look at the business, we have only four employees. Wouldn't a board of directors be too much for the business? You get what I mean. Yes, when we have grown big, it is something that may interest us. The ideas that they may bring, and we will be balanced enough to cater for the board and pay the cost of having one. (Owner/Manager, 03)

In the view of another participant:

> We have procedures to ensure that we don't overload our business. We have to be sure that we don't order stock which we don't need. We have to be sure that staff are scheduled properly. So, we don't have more hands that we need. (Manager, 06)

8.8.4 Sustainability's significance

The study found that sustainability was an issue of significance to SMEs, despite their limited understanding of the concept of corporate sustainability. Their perception of sustainability appeared to align fairly well with the principles of corporate sustainability. The participants offered varying perspectives on different issues relating to sustainability.

i. Thoughts, policies and practices to sustain the business

Many of the participants were conversant with the literary meaning of sustainability. They extended it to the concept of corporate sustainability in ways that made sense. The technical elements of sustainability were areas they were largely unaware of. Basically, they understood sustainability to mean efforts aimed at making their business successful and enduring. Some of the participants were able to discuss how their policies and practices could aid them in achieving sustainability.

For profit in a firm to be sustainable, practices within the firm have to be well planned. Such practices have to be socially and environmentally sensitive (Kiuchi and Shireman, 2001; Elkington, 2001). Turning traditional management practices into sustainable practices is an important way of ensuring a firm's sustainability (Wikstrom, 2010). In order to understand the problems related to sustainability, a new or different paradigm has to be embraced (Rowledge *et al*., 1999; Lee and Lo, 2016). The idea of a sustainability strategy involves strategic thinking as well as actions that are holistic and balanced (Slawinski and Bansal, 2009).

One participant was of the following view regarding his understanding of sustainability:

> Sustainability is not something I know very well. There may be technical parts of it that you academics can talk about. Of course, it is about making my business successful and how I will go about achieving that. I know that it is about how we run our business in environmentally friendly ways. Again, all of that is supposed to help reduce waste. For example, we are now heavily into recycling. We have reduced the disposable things used in running our business wherever we can. For example, there are mats we used for tables. We were using disposable ones. Now we use ones that we can clean and re-use. (Owner/Manager, 08)

The views of another participant were expressed thus:

> The way I understand sustainability, it has to do with the kind of things that we do in the business to help it to continue to grow. So, we are talking of good decisions. We are talking of hiring the right person to work with us. We are talking of buying from good quality sources. Now we also have to consider reducing waste. At the end of the day, waste eats into our profit. Once we are able to get all of this right, we will be fine and our business will be sustainable. (Manager, 02)

> It could be expensive in some ways. I remember when we renovated and brought in efficient lights and systems. They cost us a lot more than the prices we got for the

> regular stuff. But we worked out the long-term cost if the equipment is going to be efficient and that encouraged us to go for them. (Owner/Manager, 04)

Another participant was of the following view:

> … we make sure that things we do in the business are sustainable. Things like have the right suppliers. Not suppliers that will vanish after some time or ones that are dodgy. We try to make sure that we buy things in quantities that we can keep up with. Sometimes there is that temptation to buy large volumes because it reduces your cost. One serious mistake can take down my business. (Owner/Manager, 07)

ii. Reducing cost of doing business

One of the themes that emerged in the course of the analysis of the participants' responses was business-cost reduction. The participants sought to link it to the issue of sustainability. They were of the view that it was a key issue in their effort to sustain their small businesses. They noted that it helped increase their profit, enabled them to grow their businesses, and gave them room to explore other options.

The issue of a firm being conscious of waste could be related to the argument of Pearce and Turner (1990). They are of the view that the maximisation of a firm's economic development's net benefit lies behind the idea of sustainability. In the same light, Kubani (1996 cited in Guy and Kilbert, 1998) argue that sustainability involves a practice that entails the best use of resources. These perspectives aligned with the views of the research participants.

One of the owner/managers noted that:

> We have to make sure that we schedule our staff properly. We don't overwork them because that will backfire if they get injured or fall ill. We only make sure that we have only the number of hands that we need to do the job. That is one way a business like ours can lose money. It is a family that owns the business and if we don't watch it, we will have more hands than we need. That will be more cost. (Manager, 09)

The view of another manager was put this way:

> I like to take time to source my suppliers. I review suppliers every time. Previously, I stuck with particular suppliers for a long time. It turned out that the market may be changing. You will notice it at a slow pace through suppliers you use for long term. However, you notice it quicker if you watch the market yourself. You will notice newer, cheaper products quicker than a regular supplier may inform you about it. (Owner/Manager, 03)

> Sustainability, from the things I can associate with it, helps in some ways. When we do things to help the business run well, it helps our profit. Some of us in this arena now join hands to do certain things together. We share ideas so that when we are receiving supplies or services that could be shared, we share them. That reduces the cost as a result of larger orders. (Manager, 06)

iii. **Environmentally friendly**

The idea of environmental friendliness was also brought up by the interview participants. Some of them linked it to their sustainability practice. They considered that such practices have helped their businesses in a number of ways. Some referred to the inherent discipline of embarking on such practice; others pointed out how it has impacted on their profits. An interesting part of the development, which the researcher found, was that the issue of a business being environmentally friendly was a continuous process for SMEs. It had to be bought into by the owner and manager of a business. It was a long-term practice which also incurred initial costs. As the participants pointed out, it could result in benefits that were long-term and financial as well as uplifting for the larger society.

The quest for a healthy balance between economic development, social equity and environmental stewardship have been identified as the central idea of corporate sustainability (Sikdar, 2003). Corporate solutions that are effective must simultaneously consider environmental, economic and social goals instead of simply engaging in trade-offs (Rowledge *et al*., 1999). Sustainability also involves the use of resources that are non-renewable in careful ways (Kallio *et al*., 2007).

Some of the participants' views regarding the environment are as follows:

> Many small businesses around here used to order supplies from lots of sources. Sometimes there are many vehicles scrambling for the little spaces around here so they could park properly. Over time we coordinated and where we can, we started

> using the same suppliers. That has reduced the number of suppliers a little. That is something. Perhaps it could have been worse than what it was if we continued that way. (Manager, 01)

An owner/manager with a different experience noted:

> When all these campaigns about being environmentally friendly started, it was a bit cray. Of course, it was free to become environmentally friendly, although there were incentives from the government. Things like solar panels have helped us to reduce our cost. We now recycle more, and if you are into recycling, depending on the type of business you do, you may be getting some good deals. Some suppliers may offer you discounts for recycling packages. You may be able to buy recycled products like printer inks, for example, to help you run your business. All of these help us to reduce our cost. (Owner/Manager, 04)

Another owner/manager was of the following opinion:

> We have lots of products that are ethically sourced. We have customers who buy only such products. They believe that buying only from such encourages ethical practices. In our little way we try to encourage such practices by stocking such products. One of the things you also notice about such products is their simple and degradable packing. All of these are meant to help the environment. (Owner/Manager, 07)

iv. Future of this business

Ultimately, the aim of every business owner is for the enterprise to achieve long-term success. The interview participants indicated this in their answers to the questions. They wanted their businesses to make a profit, to grow, and some of them either wanted to sell theirs or pass them on to members of their families. To this extent the owners of the participating businesses had sustainability of their business as one of their motivators.

In the view of Costanza (1991) the idea of sustainability relates to a firm's ability to maintain a level of consumption indefinitely without an attendant degradation of capital, stock or nature. Dyllick and Hockerts (2002) considered sustainability to be an organisation's capacity to satisfy stakeholders' needs in ways that would not undermine the organisation's ability to do so in the future. A business approach that is sustainable denotes an organisation's determination to seek ways that will help its business to last (Wikstrom, 2010).

The participants in the interview addressed the issue of their businesses' future from various perspectives:

> Yes, I like the idea of sustainability, the simple meaning and the way it relates to business. That is what I want for my business. As you can see, my son is now part of my business. I hope he will take over when I decide to retire. If not, then I will have to sell it. All these things that we talk about in relation to sustainability, they have helped in some ways. I hope that they will continue to help. I hope new ideas come up as we go so that the business will last long. (Owner/Manager, 07)

Another interview participant commented as follows:

> We have practices that make our business stronger. We also have policies to help us to continue to do things, run the business in ways that are right. We are also open to new ideas and continue to review the ways we do things. I believe that all of these will help us to grow and continue to stay in business. (Manager, 02)

An owner/manager expressed the following view:

> When I started this business, I was only hopeful that things will go well. Some people I started with have shut down and some others are still around. Some of those that are still around have really done well for themselves. They have grown much bigger than what we have here. Certainly, we have made some progress. Good progress. I hope that in the next few years I should be able to sell for some tidy amount and retire. (Owner/Manager, 08)

8.8.5 Corporate governance link to sustainability

In the course of the interview the researcher sought to determine whether SME owners and managers saw any relationship between corporate governance and the sustainability of their businesses. There were different views of the participants: some barely saw any relationship; some showed understanding of what may be the relationship. Significantly, some of the participants were actually having a discussion on corporate governance and corporate sustainability for the first time.

i. Business to run properly

Many of the research participants had varying views regarding the meaning of corporate governance and corporate sustainability. Regarding corporate governance they saw it as having to do with the proper running of their businesses by those charged with responsibilities. In terms of sustainability they saw it as their businesses running properly in the long term as a result of them being properly run with the right strategies. In that way participants were able to demonstrate the relationship which they perceived between the two concepts.

Running a business well is an objective of corporate sustainability. Robert (1988, cited in Pearce *et al*., 1990) is of the view that sustainability entails a strategy that is focused on managing all the assets of a firm. This strategy includes the firm's human and natural resources as well as physical and financial assets. In the argument relating to the use of resources, Kubani (1996, cited in Guy and Kilbert, 1998) is of the view that sustainability also involves interconnections that involve all the stakeholders of an organisation. These perspectives point to the essence of corporate governance. As Nwanji and Howell (2007b) argues, corporate governance provides a framework for best practice and the management of a firm's assets. Zahra (2014) also argues that corporate governance relates to issues related to how a business is being run.

The following opinions were voiced by some of the participants:

> As I mentioned earlier, I am not sure of how well I understand what corporate governance involves. This is a small business, but we have pretty well put some procedures in place to help us know what we are doing. With that we are also able to monitor how things are going. We have our periodic checks in terms of our stocks, our orders, our deliveries to make sure that things are in order and we are in a position to achieve our goals. My staff do a great job supporting me. I am pretty confident that I can go on holiday and things will go on pretty well. (Owner/Manager, 04)

One SME owner was of the following opinion:

> I run my business with the help of my manager and supervisor. We have done a pretty good job for close to eight years now. The business has grown. I believe that if we continue to get things right, as we appear to have all these years, the business will go a long way. I am happy the way things have gone so far, despite some difficulties we have experienced. (Owner/Manager, 04)

Similarly, an owner/manager noted:

> IT is a fast-moving industry. We have to keep up in terms of our knowledge of the products, the business and the industry. That makes decision-making a tricky one, knowledge-driven. In making such decisions, I have to liaise with my boss all the time. I can’t afford to get it wrong in a way that may adversely affect the business. Other things, such as selling things to customers, are quite standard. We have

> procedures in place, which all of us follow. As long as we continue to monitor the market, we should be able to go the distance. (Manager, 02)

Another owner/manager commented:

> I run my business with a supervisor. Then there are other staff who are three in number. I make most of the key decisions. Where and when I feel comfortable I either involve the supervisor or I allow him to get on with it. I have procedures in place for doing things which helps all of us get on with our jobs fairly independently. My wife is also a director. Sometimes she comes in to help and in situations she can contribute ideas towards making decisions, she does that brilliantly. (Owner/Manager, 07)

ii. Auditor's visit:

There were certain practices which SME owners and managers thought would help their businesses succeed and last long. Visits by auditors was one of these practices. The idea behind it was that such visits assisted the business to ensure that it was keeping to the law, ensuring that it was doing things correctly and consequently improving its relationships with customers and the regulators.

While OECD (2004) views corporate governance as a systematic way of controlling and directing a firm, Hambrick *et al*. (2008) view it as involving processes with oversight functions. Corporate governance involves monitoring as well as overseeing a firm's strategic direction (Branston *et al*., 2006). The practice of corporate governance involves the appointment of controllers and regulators who may oversee the organisation's activities

(Ahmad and Omar, 2016). In the view of Tricker (2009), corporate governance involves processes that entail accountability to shareholders and supervision of the activities of managers as well as the setting of strategic direction.

In the view of one participant:

> It is not everything in the business that we understand. And there are a number of things that have to be reviewed all the time. My accountants help me to make sure that the finances are in order, that the money coming into the business are accounted for, that I pay taxes properly. Some of our equipment are audited regularly. It helps us detect faults or make changes to prevent faults. (Owner/manager, 05)

Another participant opined as follows:

> Auditors are very helpful in keeping our business going. Regulations change all the time and it is hard to keep up. Auditors help us make sure that we keep up with all sorts of regulations. (Manager, 03)

8.9 Theoretical saturation

The responses from participants during the focus group discussions either aligned with or reinforced the data collected from the survey and the interviews. The researcher decided to end the collection of data at this point as there appeared to be a degree of theoretical saturation such that new data were not providing any new or uniquely distinct insights into the phenomenon (Glaser, 2001). The researcher was of the view that new data in the context of this research were no longer emerging. Also, the categories were already filled with the data that continued to emerge (Charmaz, 2006).

8.10 Summary: open categories properties and dimensions

Table 8.8 below summarises the categories that emerged from the data analysis as well as their properties and dimensions. They relate to SME owners' and managers' perception of corporate governance as well as corporate governance's relationship to the concept of sustainability.

S/No.	Open categories	Properties	Dimensions
1.	Firm's size and governance	Small firm Director (the owner) as manager Board of directors	Small - Large Absent - Present Absent - Present
2.	Importance of corporate governance principles	Management committee Management providing proper account	Absent - Present Negative - Positive
3.	Application of corporate governance principles	Board of directors Doing things right Overloading the business	Absent - Present Negative - Positive Big - Small
4.	Sustainability's significance	Thoughts, policies and practices to sustain the business Reducing cost of doing business Environmentally friendly Future of this business	Absent - Present High - Low Absent - Present Negative - Positive
5.	Corporate governance link to sustainability	Business to run properly Auditor's visits	Negative - Positive Negative - Positive

Table 8.9 Open categories properties and dimensions

In Table 8.8, the open categories are groups of data that recurred frequently during the interviews. These data were considered important to the participants and noted as similar. One of the groups of data that recurred was identified as ‘firm’s size and governance’. The properties of this group of data were noted to be ‘small firm’, ‘director (the owner) as manager’ and ‘board of directors’. Furthermore, the dimensions of these properties were noted as ‘small to large’, ‘absent to present’ and ‘absent to present’ respectively. Similarly, another open category was identified as ‘corporate governance link to sustainability’. The properties of the group of data in this category were noted as the desire for the ‘business to run properly’ and the significance of ‘auditor’s visits’. Consequently, the dimension of the first property was noted as ‘negative to positive’ in terms of possible outcomes, and that of the second property was also noted as ‘negative to positive’.

8.11 Conclusion

This phase of the research was approached in a manner that would be devoid of preconceived ideas. However, the constructivist methodological approach made it such that the researcher’s experiences in relation to the phenomena under investigation was a legitimate data recognised in the course of the study. Despite that, there was a conscious effort by the researcher to ensure that he was ‘spoken to’ by the data. This was to ensure that the outcome of the research as well as the resulting theory would be as close as possible, as well as insightful with respect to, the social realities being examined. It also enabled the co-construction of theory through the interaction between the participants and the researcher. Consistent with the views of Charmaz (2006), these data were initially underpinned by a basic process of data analysis. Then there were constant comparisons of concepts, indicators and categories.

Semi-structured interviews with 37 SME owners and managers were carried out in this phase of the study. The focus group discussion that followed provided significant data for further analysis. Both sessions where driven by questions and ideas generated from the five categories that were identified as well as the analysis of the survey. The verbatim transcription of one interview in line with the view of Glaser (1992) aided the clarity of the analysis.

The analysis of the interviews and focus group data produced interesting results, which were similar to the outcome of the survey analysis in some cases. Interestingly, the majority of participants were of the view that corporate governance was important but not necessary for SMEs due to a number of factors, such as the size and nature of their business. A significant perspective that was noted was the idea that corporate governance appeared to relate to big organisations. One participant believed that a synonym which they, SME owners and managers, could relate to might make more sense. In that regard small and medium enterprise governance (SMEG) might be helpful. Some of the participants pointed out that this study actually made them more aware of what corporate governance is.

The participants displayed a fairly good understanding of the concept of corporate sustainability by identifying issues related to it, such as environment, profit and growth. Also, they were able to demonstrate some relationships between corporate governance and sustainability, as well as identifying what impact corporate governance might have on their firms. Decision-making and firms' structure were identified as a link between the two concepts, while transparency, accountability, proper procedures, among others, were noted as possible sustainability objectives, which corporate governance may engender.

The next chapter will seek to develop theories from the generated data through axial and selective coding processes. It will also employ the paradigm model in the course of analysis and in seeking to aid the process of theory development.

Chapter 9

Theory development (axial and selective coding) and the Substantive Theory Grounded in Data

9.0 Introduction

This chapter presents two important phases in the coding of the collected data: axial coding and selective coding. These processes enabled the continuous comparison of data as well as the examination of relationships between categories. In the process of carrying out this coding the paradigm model is employed for further analysis and to aid the process of theory building. In this phase of the research grounded theory principles were recognised and applied when the need arose.

Axial and selective coding processes aimed at developing substantive corporate governance theories will be presented in this chapter. On completion of open coding as described in the previous chapter, axial coding followed and was used in the ordering and arrangement of categories. This helped to reveal their relationship to each other. The paradigm model was applied to the five categories that had emerged (see preceding chapter). Selective coding which aids the integration, interpretation and refinement of the major categories and sub-categories, followed the axial coding. This created a story that explains what occurred in the phenomenon.

The preceding chapters have examined literature relevant to this study. In addition, methodological approaches have been explored and grounded theory was determined to be appropriate as the underpinning framework. Based on grounded theory principles, the data generated from the empirical aspect of the study were subjected to grounded theory procedures.

This chapter presents the substantive theories that were generated through these procedures. It also explores the relationship between a substantive theory and a formal theory.

9.1 Axial coding

Open coding results in the fracturing of data. Axial coding results primarily in reassembling the fractured data (Strauss and Corbin, 1998). Axial coding is a set of procedures that enable data to be reorganised in new ways after open coding has been carried out. Along the lines of the properties and dimensions that have been noted during open coding, connections are made between categories. A fundamental assumption of grounded theory is that every category is linked to the other open categories. By searching for cues in the data that indicates how the major categories may be related to each other, relationships between categories are identified and established by axial coding. This aids the development of explanation regarding the phenomenon, and this explanation is more precise and detailed (Strauss and Corbin, 1998). Table 9.1 below demonstrates the relationship between the categories that have emerged and includes the links which the researcher identified in the focus group and interview answers analysis.

To: **From:**	**Firm's size and governance**	**Perception of corporate governance**	**Application of corporate governance principles**	**Sustainability significance**	**Corporate governance link to sustainability**
Firm's size and governance		Determines acceptance	Not dependent	Increases the need	Helpful
Perception of corporate governance	Not necessary		Demonstration of importance	Promotes	Institutionalises
Application of corporate governance principles	Practicable	Existing		Promotes	Enables
Sustainability significance	Likely outcome	Enables	Promotes		May result in
Corporate governance link to sustainability	Auditor's visits	Aids	Facilitates	Encourages	

Table 9.1 Categories and their inter-relationships

Based on the reorganisation of data in the grid above (Table 9.1), for instance, the category 'firm's size and governance' was considered to be a factor that determines the acceptance of 'perception of corporate governance'. Similarly, 'application of corporate governance principles' was identified as an enabler of 'corporate governance link to sustainability'. Furthermore, 'corporate governance link to sustainability' was noted to encourage 'sustainability significance'.

Identification of the actions, conditions, interactions and consequences that are related to the phenomenon is recommended by Strauss and Corbin (1990). The paradigm model is used to achieve this and provides a coherent explanation of what is going on regarding the phenomenon. An examination of the relationships among the data is further explored in the process. It examines actions/interactions, conditions (casual, contextual and intervening) as well as consequences. The phenomenon reflects the categories in axial coding and the subcategories consist of the other elements of the paradigm model. These subcategories address the consequences of the phenomenon's occurrence as a way of conceptualising the phenomenon further. In addition the subcategories also address the 'how', 'when' and 'why' of the consequences.

An examination of the details of the data are further carried out through axial coding. The data are decontextualised from the focus group and interview and considered as part of a broad body of evidence. Finally, there is a recontextualisation of the data in ways that are new, which are guided by constant comparison and categorisation as well as synthesis. An analytic flow which links the paradigm model's components to the main categories, as well as the subsequent relationships they have with the phenomenon, is developed. Two important elements of the theory are addressed by the paradigm model: its structure and its process. The process is viewed as a series of sequences of actions and interactions that evolve, which take place over time and space. They either change or remain the same while responding to a situation or context (Strauss and Corbin, 1998).

9.1.1 The phenomenon

A repeated pattern of events, actions, interactions or happenings which reflect the reaction of a group to a situation or problem that they are confronted with is considered a phenomenon. They are examined for relationships (Strauss and Corbin, 1998). During the interviews participants were asked questions in relation to the importance of corporate governance to SMEs. The phenomenon that was identified from the responses to interviews and focused group questions was the importance of corporate governance. Based on the paradigm model's application, casual conditions resulted to the phenomenon. This represented perception of corporate governance in SMEs, the basis of the emerging theory. Interestingly, the phenomenon of perception of corporate governance consists of factors such as the existence of management committee, management providing proper account. They reflect SMEs owners' and managers' views of the concept of corporate governance in their organisations.

The research participants identified running an organisation, accounts being overstated, existence of a management committee, presence of a board of directors, developmental growth of business, final decision and manager as issues related to perception of corporate governance in SMEs. In summary, the understanding of the concept of corporate governance by SMEs owners and managers related to how their organisations were run, issues of decisions-making and growth. These ideas appeared to come from SMEs from a wide range of industries, including retail, technology, business services, hospitability and life-style etc.

The running of the organisation was how SMEs owners and managers perceived the concept of corporate governance. This also included issues such as accounts being overstated. Though they expressed varying degrees of understanding of the real meaning of corporate governance, their views tended towards the idea that it entailed the proper running of their businesses. Regarding the existence of a management committee, it was referred to by the participants as a concept similar to that of having a board of directors. Their view suggested that a management committee was the nearest to a board of directors that the researcher found in this study of SMEs. Notably, some of the participating businesses had only one owner/manager serving as the entire decision-making ‘system’ of the business. Some businesses had owner/managers and a separate manager, and in some cases a supervisor in addition to the owner/manager and manager. The participants described these scenarios with reference to a management committee, using them to demonstrate the idea of a board of directors in an SME.

The interview participants were also of the view that developmental growth of business was an issue they perceived as relating to corporate governance. They reasoned that corporate governance should result in the development and growth of their businesses. To that extent their views also appeared to suggest that corporate governance involved the ultimate decisions taken in a business, referred to as the ‘final decision’. They believed that such decisions were those that were regularly made by the owner and managers of SMEs. The manager was perceived by SMEs owner and managers as being involved in the process of corporate governance. This included the issues detailed above as well as the managerial structure of the businesses, also discussed above.

The factors that appeared to inform the views of SME owners and managers were the structure of their firms, their size the nature of their businesses, issues related to decision-making as well as the volume of their businesses. The outcome of the group discussion provided some clarification of these findings. The participants considered that corporate governance was important but felt distant from it. They perceived it merely as one of those concepts associated with large organisations. While the research findings relating to the meaning of corporate governance were consistent with the views of scholars the findings concerning operational relevance to SMEs appeared novel.

9.1.2 Causal conditions

The occurrences and events which influence a phenomenon's development are referred to as causal conditions. Such conditions include the influence that could result from being in a type of environment or the occurrence of an incident that may influence a behaviour (Strauss and Corbin, 1998). Such conditions are perceived as providing a necessary background to a phenomenon. However, they are not considered to be sufficient for that phenomenon to occur (Woods, 2007). Causal conditions assist in discerning 'why' and 'how' individuals or groups react in certain ways (Strauss and Corbin, 1998). The researcher sought to identify the causal conditions by focusing on the phenomenon and simultaneously re-examined the data systematically to ascertain the incidents, events or happenings that led to the phenomenon's occurrence (Strauss and Corbin, 1990).

The research found that the causal conditions were the existence of board of directors, doing things right and overloading the business. The presence of an independent board of directors is a practice that is consistent with corporate governance principles. A board will encourage accountability within the firm, find ways of managing the opportunistic behaviours of the management and give valuable advice. While SMEs stand to benefit from the ideas which a board of directors may offer, the issue of managers' opportunistic behaviours may not be as widely found in large corporations. Interestingly, participating SMEs highlighted concerns regarding the need for a board of directors, with the cost implications being of core concern. They also raised concerns regarding their ability to make decisions quickly and respond promptly to important issues which might need the board's approval. There were also concerns about the risk-taking behaviours that might be associated with independent directors.

Doing things properly is the central focus of corporate governance and participating SMEs had it as a key objective. The study found that owners and managers strongly wished to succeed, and noted that they also believed that doing the right things was not merely the right idea but an approach that must be pursued at all times in order to succeed. They believed that they had to lead by example to encourage the other members of the firm. This approach made it likely that SMEs could embrace corporate governance principles which it can accommodate.

SMEs' idea of doing things properly fed into the notion of not overloading the business. The participants believed that certain corporate governance practices, such as having a board of directors as well as the bureaucratic practices that may go with it, could weigh down upon their businesses. They pointed out that having a board of directors would incur cost. They also noted that a board of directors has certain responsibilities, for example, the need to approve decisions, thus issues that were promptly dealt with previously might be delayed. In addition, SME owners expressed concerns about what may amount to the risk-appetite of an independent director. They were of the view that it might differ from theirs, leaving the owners to bear the outcomes of such risks. Another dimension of overloading the business related to its routine activities. The owners and managers believed that taking up practices, endeavours, services which the business was unprepared for should be avoided.

9.1.3 Context

At any given time and space, there may be specific conditions or conditions that fit into a pattern, which interact dimensionally. They result in particular problems or circumstances, which individuals react to through a combination of actions and/or interactions and are denoted as the context of the phenomenon (Strauss and Corbin, 1998). They further assist the researcher in answering the ‘why’ questions regarding the phenomenon. The question: ‘How would you explain the meaning of corporate governance?’ was introduced by the researcher to serve as the conceptual framework for exploring the actions and interactions that result in the phenomenon being examined.

The researcher identified ‘firm’s size and governance’ and ‘perception of corporate governance’ as the contextual conditions. Through open category properties, these contextual conditions ‘firm’s size and governance’ (small firm, director as manager, board of directors) and ‘perception of corporate governance’ (management committee, management providing proper account) influenced the ideas and actions of SME owners and managers, as well as the firm’s strategies. Many of the interview participants felt that the sizes of their businesses and their ways of managing them made it unnecessary to think about corporate governance. When they did, they saw the benefit of certain principles of corporate governance, such as proper bookkeeping, proper procedures and the right policies. However, in terms of ideas, such as having a board of directors, believed that a board of directors might be helpful. However, they noted that it would involve cost, could slow down decision-making or expose the business to certain risks. From the participants’ responses, the researcher found that these issues were taken care of by the phenomenon of the owner being present as the manager as well.

The nature of SMEs' business was found to have partly resulted in the type of governance they employed. The owners and managers who participated in the interviews had positive views of corporate governance. Some of its principles were already in place, such as proper book keeping, the business of the interview participants did not have a board of directors, the nearest thing to this being, in some cases, a sort of management committee. These management committees usually consisted of the owner and the manager. In other cases, it was made up of that owner, the manager and a supervisor. These were ways SME owners and managers reacted to the conditions of 'firm size and governance' and 'perception of corporate governance' which created the circumstances to which they respond.

9.1.4 Intervening condition

The impact of causal conditions on a phenomenon could be altered or mitigated. The factors that influence causal conditions in these ways are known as intervening conditions. An organisation's strategies are influenced by such general contextual conditions (Strauss and Corbin, 1998). In order to identify the intervening conditions, the research asked the question: 'What conditions alter causal conditions' impact or what conditions mitigate them'? Sustainability's significance and its properties were considered to be intervening conditions and include 'thoughts, policies and practices to sustain the business', 'reducing cost of doing business', and 'being environmentally friendly'.

SME owners and managers who participated in the interviews had views of what sustained their businesses. Their ideas about how their business should be run, the policies that they put in place to further such ideas, as well as the actual practices that they engaged in were some of the things that they associated with sustainability. Interestingly, such ideas are consistent with sustainability principles. Owners and managers had some positive perceptions of how corporate governance helped them to achieve their goals. Some of its principles were found to have been imbibed. However, some of the owners and managers had concerns about the cost and certain operational implications of corporate governance for their businesses. Interestingly, many owners and managers engaged in environmentally friendly practices, such as recycling, sustainable sourcing of supplies and non-renewable-waste reduction.

9.1.5 Action/Interaction

The range of causal interventions which people employ when seeking to resolve issues or situations that they find themselves in is referred to as ‘action’. Also, actions that are mutual or reciprocal to those ‘actions’ are referred to as ‘interactions’. These actions and interactions are considered to be routine and strategic (Strauss and Corbin, 1998). Such actions and interactions are purposely intended to respond to situations that are unexpected or issues that may arise. Ways of acting through which social order is maintained, and protocols, rules, etc are established constitute ‘routines’. These are considered to be actions that take place in reaction to contextual changes. They may be perceived as strategic as a result of being taken in response to situations that are considered either routine or problematic and carried out without being given much thought (Straus and Corbin, *ibid*). The dynamics between individuals, groups and organisations are established through the significant role which actions and interactions play.

Research may focus on individuals or groups. Actions and reactions will be aimed at carrying out, managing, handling or responding to a phenomenon taking account of its context. Alternatively, the management, handling and response to the phenomenon may be governed by a particular group of perceived conditions (Strauss and Corbin, 1990). The behaviours of SME owners and managers that was strategic as well as their reactions to contexts that impacted on actions and interactions that are strategic were examined by this research. It explored practices that were self-reflective as well as the behaviours of owners and managers in relation to the phenomenon under investigation.

Corporate governance linked to sustainability is considered inherently to consist of an action/interaction strategy, and its properties are 'business to run properly' and 'auditor's visits'. A business running properly entails having proper rules and regulations in place, and also entails managers and members of staff acting responsibly in ways that are consistent with the rules and regulations. Proper book keeping, adhering to legislation, proper management of employees, among others, make up SME owners' and managers' expectations. Furthermore, the auditing helps the business to ensure that things are being done correctly, enabling it to run properly. The auditors examine the activities of the businesses in order to ensure that they are consistent with policies, regulations and legislation. When the business runs properly with regular auditing, corporate governance could be said to be aiding sustainability.

9.1.6 Consequences

The outcomes of actions and interactions are what is considered as consequences according to grounded theory. Larger outcomes that are linked to a phenomenon, rather than outcomes that are specific to each action and interaction, are consequences. These consequences may be primary, secondary, intended or unintended. When an action that is carried out yields an outcome that is expected, the outcome is viewed as an intended consequence. However, when the outcome is different from what is expected, it is considered an unintended consequence. Also, the immediate result that is intended is considered a primary consequence and results that originate from primary consequences are considered secondary consequences and could be intended or unintended. In order to determine 'consequences', the researcher posed the question: 'In the context of the phenomenon under investigation, what strategies have the actors adopted?'

Attainment of sustainability was identified as a consequence by the researcher. The SME owners and managers who participated in this study hoped that their businesses would succeed. Part of what this success meant to them was longevity of the business and provision of good returns. The research found a range of measures which the participants had put in place that were designed to result in this 'consequence', for example, policies to monitor their business activities properly, some of which were consistent with corporate governance principles, although the participants were not fully committed to the idea of corporate governance. They identified certain outcomes such as cost and additional bureaucracy, which were unintended and which they believed might undermine some of their concerns.

The participants had put in place measures that would assist their businesses to run efficiently. Some of them identified the collaborative resourcing of their businesses. They pointed out that it exposed them to sources from which they could acquire their stock at better prices. This also resulted in practices that reduced carbon emission due to the reduction in the number of suppliers. In addition, SME owners and managers who participated in the study used practices that were friendly to the environment, for example, recycling of waste. Some of them introduced measures to reduce their energy consumption, energy being non-renewable and a source of carbon emissions.

Below is a framework, Fig. 9.1 developed to reflect the axial coding using the paradigm model:

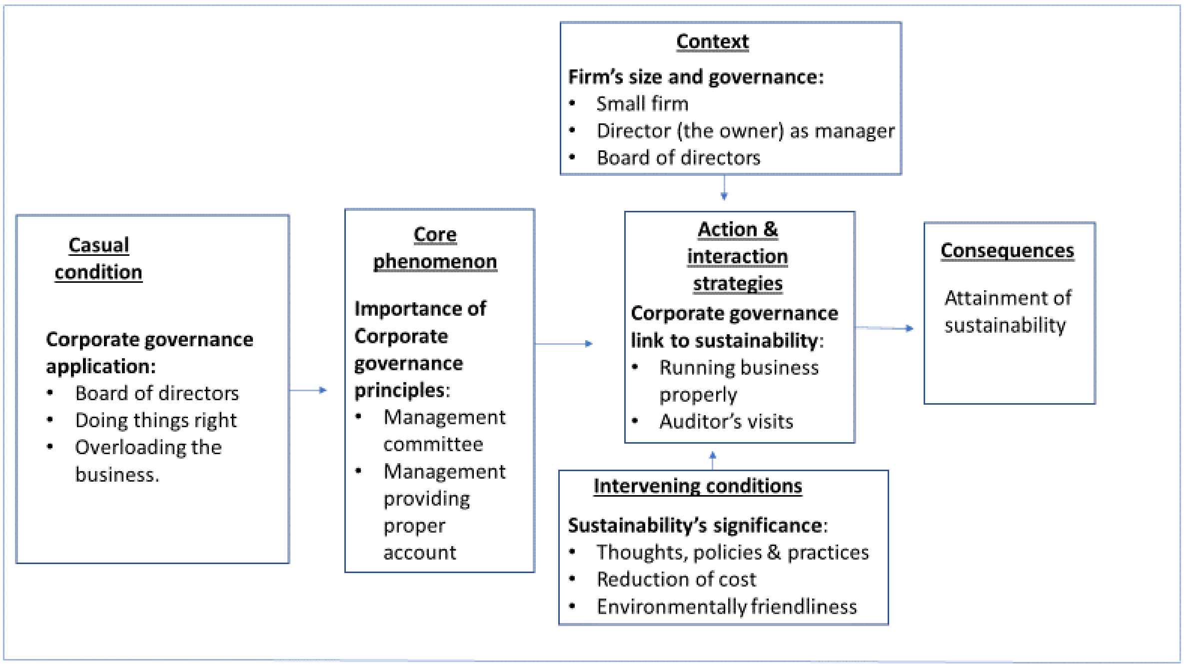

Fig. 9.1 Axial coding using paradigm model

Management providing proper account is perceived as a phenomenon of SMEs. As Carson *et al*. (1995) note, owners and managers of SMEs tend to be the same, resulting in the convergence of the goals of the organisation with those of the owner and/or manager. Furthermore, Aiginger and Tichy (1991) proceed to highlight the flat organisational hierarchy within SMEs which the researcher believes include its accounting functions. In addition, the quest to do things right was noted as one of the causal conditions. Added to the foregoing features of SMEs, EC (2003; 2004) highlights the contributions of SMEs in the event of economic downturn or natural disaster. Greiner (1998) identifies the contributions of the entrepreneur towards the firm's success in the early life of the SME in what is referred to as a 'bundle of skills'. In the researcher's view, these are SMEs' quest to do things correctly. The context of the emerging theory involved the small size of SMEs, among other aspects. This was identified by Smith *et al*. (1986) as playing a role in the success or failure of a firm's strategy.

The impact of causal conditions on the phenomenon are considered to be intervening conditions that either alter or mitigate the phenomenon. Environmental friendliness was identified as an intervening condition. This is consistent with the views of EC (2003; 2004) that the SME sector pursues ethical practices such as environmental sustainability, protection of human rights and support for social progress. In addition, SME owners and managers seek to run their businesses properly in the view of the researcher. This is in the light of SMEs being perceived as a bundle of resources (Brush *et al*., 2001), which facilitates their routine activities. Furthermore, attaining sustainability was identified as a consequence for SMEs since it is a result of the action of running the business properly.

9.2 Selective coding

Categories were generated in the course of open and axial coding. These categories were integrated during selective coding and also refined with the aim of developing a phenomenon. The phenomenon provided the power to explain the relationships which were found to exist among the categories (Strauss and Corbin, 1998). Selective coding provides a higher level of abstraction despite offering similar integration and refinement to that of axial coding. Consequently, axial coding provided the basis of selective coding (Strauss and Corbin, 1990).

Identification of the core category, further integration of categories as well as refinement of the theoretical schema made up the process of selective coding. The paradigm model, which served as a process model, facilitated the integration of the five categories and connected the action/interaction sequences. The axial coding process reflected in Fig. 9.1 demonstrated the existing relationships between all the categories. With the establishment of relationships between the open categories, the researcher proceeded to conduct selective coding.

9.2.1 The core categories' relationship to the axial categories

The core category is central to the paradigm model. Its relationship to the causal conditions, context, intervening conditions, action and interaction strategies as well as consequences needs to be explained. Howell (2000) identifies it as the central category that is used to link all the other subcategories. On the other hand, selective coding explains categories' inter-relationships. It also examines the complexities that exist in the relationships between the concepts that have emerged in order to ensure that there is consistency with the data (Creswell, 2005).

'Perception of corporate governance' was identified as the core category. This arose during the identification and verification process of determining the relationship between the open coding's emerging categories. The researcher noted 'perception of corporate governance' as the category best suited to enabling and facilitating the development of orderly systematic relationships (Strauss and Corbin, 1990). This orderliness was noted by the researcher as conforming with the paradigm model. In that way this process resulted in the reconstruction of data that would result in a potential substantive theory (Strauss and Corbin, 1990). The table below, Table 9.2 reflects the existing relationship between the open and the main categories underpinned by the paradigm model.

S/No.	Sub-category	Paradigm component
01.	Perception of corporate governance	Phenomenon
02.	Corporate governance application	Causal conditions
03.	Firm's size and governance	Context
04.	Sustainability significance	Intervening conditions
05.	Corporate governance link to sustainability	Actions/interactions
06.	Attainment of sustainability	Consequences

Table 9.2 Relationship between the open category and the main categories

Other categories were linked to the core category as the next step in selective coding. An individual evaluation of each category in relation to the core category, 'perception of corporate governance', was carried out. Questions that would assist in demonstrating the process and showing where each of the categories fitted into the paradigm model were devised. This was underpinned by the questions: 'Is a category applied to a context or is it action-oriented'; 'Is a category a causal or intervening condition?' The relationship between the core category and the subcategories (sustainability's significance, firm's size and governance, corporate governance link to sustainability, sustainability's significance, attainment of sustainability) were verified. The views and opinions of focus group participants were used to carry out the verification. Applying the paradigm models enabled the core group to be linked to the sub-categories.

9.2.1.1 Causal condition

Corporate factors that impacted on SMEs consisted of the following: existence of a board of directors, doing things right and overloading the business. They appeared to account for why

SME owners and managers related to corporate governance in the manner which they did. The idea of a board of directors was one which SMEs found interesting but not very relevant to their businesses. The study found that SMEs were concerned about cost implications, impact on flexibility and agency issues that might be associated with an independent board of directors. Owners and managers of SMEs who participated in the focus group were seeking to run their businesses properly and that is a key objective of SMEs. Hence, SMEs appeared comfortable with the ideas related to corporate governance. This factor of doing things right extended to the issue of overloading the business, which appeared to have two dimensions: the literal dimension of not overloading SMEs with activities which they might find difficult to cope with, and the implication of introducing ideas associated with corporate governance principles, such as having a board of directors.

9.2.1.2 Contextual conditions

The importance accorded by SME owners and managers to corporate governance was based on the contexts of SME size and how they were governed. This context was made up of the size of these firms, the reality of the owner also being the manager, and their perception of the role of a board of directors. Corporate governance and its principles are important to an organisation. The reluctance to embrace them by SME owners and managers was based on the small size of their businesses. Their perception of corporate governance was that it is meant for big organisations. The owner also playing the role of the manager brought novelty to corporate governance theories of stewardship and agency. In that context the owner played the dual role of principal and agent which helped to eliminate agency concerns. The idea of a board of directors did not appear to resonate with the participants for a range of reasons. Against the common perception of only managers playing agency roles, some SME owners presented the idea of a board of directors in an SME as an agency role. Interestingly, they also expressed similar concerns to those embodied in agency theory.

9.2.1.3 Intervening conditions

The significance of sustainability is considered an intervening condition consisting of thoughts, policies and practices used to sustain a business, reduction of the cost of running the business and environmental friendliness. The impact of causal conditions on the phenomenon are either altered or mitigated by these intervening conditions. On the basis of SME owners' and managers' ideas policies were developed which were implemented in their businesses. This process assisted SMEs in achieving the goals of their owners. In addition, the focus on cost reduction and environmental friendliness aided the businesses in their efforts to become sustainable, despite the limited awareness of the concept by the owners and managers. Such pursuits are part of the overall objectives of corporate governance, which the owners and managers have limited knowledge of. In the views of OECD (2004) as well as Branston *et al*. (2006) corporate governance involves the overseeing of the firm's strategic direction, socioeconomic and cultural context, externalities as well as constituencies.

9.2.1.4 Action/Interaction strategies

'Running the businesses properly' and 'auditor's visits' made up the actions and interactions which the researcher identified. These are activities that aim to deal with issues or situations that are encountered. The overall objective of corporate governance to make sure that the business functions properly by having the right strategies, ensuring the board of directors performs its role, putting the right processes in place. These were highlighted by the participants. In addition, auditing was mentioned as one of the efforts to ensure that the business was run well. Auditing touched on a wide range of compliance issues, such as ensuring that book keeping is properly done, complying with legal requirements regarding various issues and making statutory returns to the appropriate authorities. All of these assisted the SMEs owners and managers in their governance of their businesses.

9.2.1.5 Consequences

Greater sustainability is considered a consequence of action and interaction strategies. It will be the result of improved running of SMEs as well as regular auditing. These actions and reactions would demonstrate the importance of governance if it were embraced. The research participants considered that those practices within their firms that aligned with corporate governance principles actually improved the running of their businesses. Participants felt that attainment of sustainability actualised the owners' desires. This included having their businesses succeed by providing them with returns which they considered meaningful as well as survival of the firm over the long term.

The paradigm model's development was an iterative process. The fit of each category in the process as well as their relationship to one another were verified systematically through recurrent analysis. In the process of generating propositions as well as testing them, the paradigm model's construct validity and relationship validity were established. Relationships that are generalised between a category and the concepts that underpin it, and categories that are discrete are indicative of propositions (Howell, 2013). There are certain propositions in which conceptual relationships are involved. On the other hand, there are hypotheses in which measured relationships are needed (Howell, 2000). A hypothesis could be described as an idea which has no proof, but is based on feeling. Consequently, a hypothesis about concepts which have links explains 'why', 'what', 'how' and 'where' questions regarding a phenomenon (Strauss and Corbin, 1998).

Developing propositions is a process that is iterative. Its aim is the validation of relationships between the categories integrated into the paradigm model. In the course of the process of selective coding, substantive grounded theory was developed. The study generated theoretical propositions resulting from constant comparisons that were carried out between the interview data and those derived from the focus group (Strauss and Corbin, 1998). 'Generalised relationships' of the paradigm model is another term by which these propositions are referred to. This occurs in the course of developing a preliminary framework. The following propositions have been made by the researcher:

1. The firm size and the limited understanding of corporate governance principles by SME owners and managers impacted on the extent which the principles were practised in SMEs. This practice could have been better if the knowledge of corporate governance principles was in-depth.

2. SMEs' aim of being sustainable was constrained by participants' limited understanding of corporate sustainability principles as well as the cost implications. However, some of the existing policies and practices in SMEs did promote sustainability.

3. Effective management, environmental friendliness, accountability and good practices would aid SMEs in their quest to achieve sustainability. Monitoring of their practices and ensuring compliance with regulations would aid this effort.

4. Improved understanding of the principles of corporate governance and sustainability and the implementation of these principles would enhance SMEs' sustainability.

The research methods used, interviews and focus groups, generated the propositions above with the aid of link concepts and the categories of the paradigm model. These propositions point to the relationship between core categories in the open coding process and 'perception of corporate governance'. Among the propositions, one states that the limited degree of corporate governance practices in SMEs is a result of SMEs' limited awareness of corporate governance principles. Fig. 9.1 below demonstrates that the importance which SMEs place on corporate governance principles is dependent on their size, the role of the owner as the manager and their perception of a board of directors.

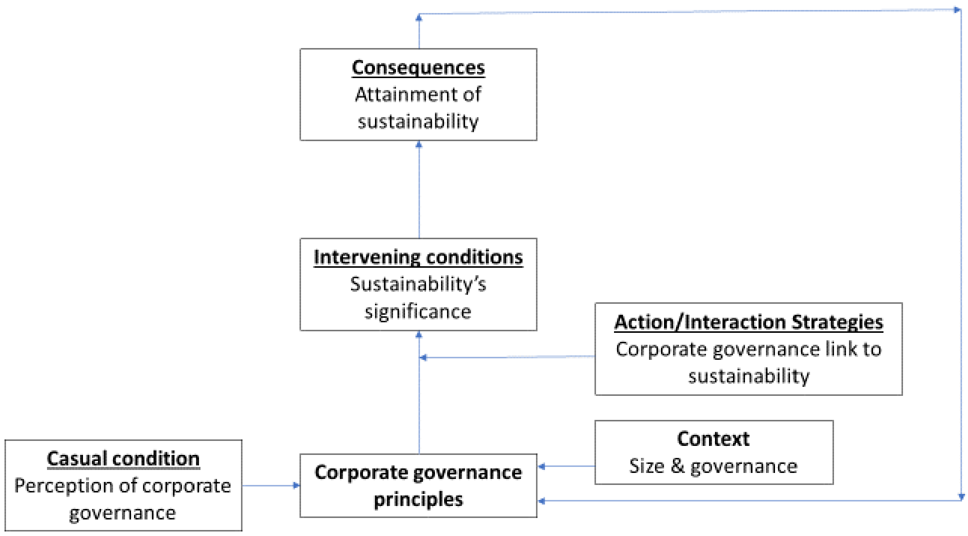

Fig. 9.2 The relationship between the core and sub categories

The relationship between categories and components of the paradigm model are guided by the set of propositions that provide a description of these relationships between categories. There is a need for an interpretation of these relationships in the context of the paradigm model's set of propositions. The core category, 'importance of corporate governance principles,' was enabled by the set of propositions that were developed and the paradigm model, resulting in the following interpretation:

> There is a limited understanding of corporate governance principles in SMEs, hence limitations in its practice. This situation is also a result of other factors, such as the size of SMEs, the nature of the SME sector, limited understanding of sustainability and the business goals of SME owners and managers. The following activities would improve the governance of SMEs:
>
> - Thoughts, policies and practices that are appropriate
> - Approach towards the reduction of cost
> - Environmental friendliness

As a result of the intervening conditions and strategies outlined above, which aim to enhance corporate governance practices in SMEs, actions and interactions will succeed only when the understanding of corporate governance principles is enhanced. Consequently, SMEs may fail to achieve greater sustainability.

The relationship between the categories and the central category is formulated and described according to the following storyline:

> Issues that are related to corporate sustainability's significance in SMEs demonstrate the impact of SMEs' limited understanding of the importance of corporate governance principles (which includes the effectiveness of the management committee and the management providing proper accounts). Certain factors, such as the small size of the firm, the owner playing the role of the manager and the perception of the insignificance of a board of directors were noted as key factors in SME owners and managers' perception of corporate governance. Their perception, based on these

factors, was that corporate governance is not of key concern to them. In any case, if in practice the firm is run properly and regular auditing is carried out, governance practices are likely to improve in SMEs, which may help in achieving corporate sustainability. The phenomenon's intervening conditions: thoughts, policies and practices, reduction of cost and environmental friendliness enable strategies, such as running the business properly and regular audits, to be more effective. As a result, the outcome of effective governance practices, should enhanced SMEs sustainability.

In the preliminary framework, the study's central concept (the importance of corporate governance principles) made it possible for the organisation of the categories around the central phenomenon. The paradigm model's narrative explanation is made up of four categories. It provided the basis for the development of the preliminary framework surrounding the phenomenon of corporate governance in SMEs.

9.3 The substantive theory

A substantive theory of corporate governance in SMEs was developed in this research. Certain factors that influence corporate governance and the characteristics of these factors were identified along with their implication for an effective corporate governance system. In the simultaneous collection and analysis of data, grounded theory techniques were employed. The open coding process, axial and selective coding were used to analyse the data in relation to sustainability significance. Thirty-seven semi-structured in-depth interviews were conducted resulting in the emergence of five open categories: firm's size and governance, corporate governance principles' importance, application of corporate governance principles, sustainability's significance and corporate governance link to sustainability. The axial coding process followed next, linking the open categories and their properties as well as their dimensions into a coherent system (Howell, 2000).

The process whereby the central category, otherwise referred to as the core category, is related systematically to the other categories is known as selective coding. Those relationships were validated and categories that required further refining and development were filled. (Strauss and Corbin, 1998). After the initial sampling that was rational and variational, sampling became discriminate at this level of selective coding. The nature of the data to be collected next was selected by this process as well as where to find them. The process also identified the need for the focus group discussion involving SME owners and managers. Data saturation was arrived at based on the group discussion's output, which provided a better understanding of the phenomenon. This process possessed the analytic power that could draw the main categories together in a manner that formed an explanatory whole. Where there were considerable variations within categories, the output of the group discussion should be able to explain these (Strauss and Corbin, 1998).

Induction and deduction went on together in the course of the analysis. In the course of theory building, the collection of data and the analysis used was deployed to question the theory continuously. The relationship that existed between corporate governance principles and the other subcategories as well as their verification provided the basis for the development of the substantive theory. Through the categorisation of coding and the employment of the coding model, substantive grounded theory is developed. The substantive theory associated with the issue of corporate governance in SMEs had its basis in what phenomena the data presented, the relationship that existed between them, and the impact which the phenomena and relationships had on the practice of corporate governance in SMEs.

As a result, the core category was captured in the influence of the limited awareness of corporate governance principles; the causal conditions reflected the perception of corporate governance; the context was the firm's size and governance; the intervening conditions were sustainability's significance; the corporate governance link to sustainability provided the strategies; and enhanced sustainability became the consequence.

A summary of the substantive theory is as follows:
The size of a small to medium enterprise (SME) influences the nature of its governance. In SMEs the firms' ownership and control are largely the same, resulting in a coincidence of the stewardship and agency theories with respect to the owner/manager. SMEs have a limited understanding of corporate governance, which impacts on their ability to apply its principles to their firms. SMEs find certain aspects of corporate governance unattractive, despite its acknowledged importance, due to the size of their businesses. In addition, SMEs have a limited understanding of sustainability, which also impacts on their ability to imbibe sustainability principles. SMEs unknowingly have corporate sustainability as a fundamental goal. However, the relationship between corporate governance and corporate sustainability is not apparent to SMEs.

SMEs have been defined partly in terms of their size. Most SMEs have been reported in previous studies to be owned by an individual, a small group of individuals or a family. This research found that all the participants in the research fell into one of the groups. It also found that the ways in which these SMEs are governed were largely driven by the ideas of the owners, how they decided to respond to issues or their perception of what they considered appropriate. Significantly, these considerations were underpinned by cost considerations.

The ownership and control of most SMEs are in the hands of an individual or a group of individuals. This results in a situation in which, on one hand, the interests of the managers who also happen to be the owners of the firm as well as the interests of the firm are properly aligned (Albrecht *et al*., 2004). As a result, the structure that facilitates and empowers the managers and their activities will no longer be the issue of focus. On the other hand, there is a situation in which the owners of the firm would usually have engaged other individuals, the agents, resulting in principal-agent conflicts (Jensen and Meckling, 1976; Hill and Jones, 1992). These two scenarios usually occur separately in corporations due to the fact that their owners and managers are separate entities. However, this research notes that as a result of the nature of SMEs stewardship and agency theories coincide in the individual or group of individuals who own and manage SMEs simultaneously. A large percentage of SMEs who participated in this research were found to have owners who also played the role of manager (Table 8.2). In situations in which independent managers were employed, owners were also present and played the role of executive directors. This dual role of the owner/manager results in the coincidence of the stewardship and agency theories. It also helps mitigate agency concerns in SMEs.

SMEs' inability to fully practise corporate governance is a result of their limited understanding of the concept. The research found that the majority of SME owners and managers who participated in the study were not very knowledgeable about corporate governance. However, the knowledge and understanding of corporate governance by all the participants improved in the course of the research, resulting in them seeing more need for corporate governance in their firms. Governance in SMEs would improve if SMEs had a better understanding of the concept of corporate governance.

Despite the perception of corporate governance SMEs find some aspects of it unattractive because of the size of their businesses. This study found that SMEs considered that corporate governance was an important concept. However, SMEs found its holistic application unattractive due to the nature of their businesses and cost. The idea of a board of directors was particularly noted by the research participants as a concept that might disadvantage their businesses because of issues of cost, flexibility and agency.

SMEs' limited understanding of corporate sustainability impacts on their ability to practise it. The participating SMEs were found to be practising corporate sustainability to varying degrees. This was due to the extent of their understanding of the concept. The research found that in areas of environmental friendliness and efficiency in management SMEs, where government and non-government agencies carried out enlightenment activities, SMEs have made changes to varying degrees. This was as a result of the inherent benefits which they perceived in such ideas. Consequently, the researcher argues that where SMEs fully understand the concept of corporate sustainability and its benefits, they are likely to embrace more enthusiastically.

Corporate sustainability is unwittingly a core objective of SMEs. Despite SMEs' limited understanding of corporate sustainability, the study also noted that SMEs' goals aligned significantly with the principles of corporate sustainability. SMEs seek to run their businesses efficiently and successfully. The efficiency may be beneficial to the environment to varying degrees. Ultimately, SMEs hope that their businesses will endure.

It is not apparent to SMEs what the relationship is between corporate governance and corporate sustainability. This research found that SMEs varied in their degree of understanding of corporate governance, and similarly in relation to their comprehension of corporate sustainability. Significantly, participating SMEs were also limited in their ability to link the practice of corporate governance to corporate sustainability. Considering a noted goal of the participating SMEs, namely, to run successful businesses that would endure, SMEs would be more motivated to adopt corporate governance principles if this relationship were more apparent.

9.4 Conclusion

In the course of the coding process cues indicating the relationships between categories were sought. This enabled the process of axial coding, a reorganisation of data in ways that are new. This was done with respect to the properties and dimensions that were established during the open coding process described in the previous chapter. Using the paradigm model, actions and interactions, conditions and consequences related to the phenomenon were identified. This was followed by a decontextualisation of the data from the interviews and the focus group. Using axial coding the importance of corporate governance was identified as the phenomenon of the research. This was as a result of causal conditions that highlighted corporate governance’s importance to SMEs. As the participants indicated, this phenomenon is made up of properties such as existence of a management committee and management providing proper account. Among other findings in the course of axial coding, the researcher identified concepts such as accounts being overstated, development and growth of the business, responsibility for final-decision-making as issues that related to corporate governance in SMEs.

The categories that were generated in the course of the open and axial coding were integrated and refined during selective coding. This aimed to develop a phenomenon with the power to provide explanation as well as a higher level of abstraction. There were relationships between the core category, which is central to the paradigm model, and the axial categories: causal conditions, context, intervening conditions, actions and interactions strategies and consequences. These were explained in the course of selective coding.

The concluding chapter will summarise the entire research through the presentation of the substantive theory. The outcome of the research will be discussed, its limitations will be reviewed and recommendations will be made regarding possible areas of future research. In the course of the coding process cues indicating the relationships between categories were sought. This enabled the process of axial coding, a reorganisation of data in ways that are new. This was done with respect to the properties and dimensions that were established during the open coding process described in the previous chapter. Using the paradigm model, actions and interactions, conditions and consequences related to the phenomenon were identified. This was followed by a decontextualisation of the data from the interviews and the focus group.

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The concluding chapter will summarise the entire research through the presentation of the substantive theory. The outcome of the research will be discussed, its limitations will be reviewed and recommendations will be made regarding possible areas of future research. Following the application of grounded theory procedures to the data that were generated, this chapter has outlined the substantive theory of corporate governance that were developed in this study in relation to SMEs' sustainability. Interestingly, the debate regarding what constitutes a formal theory or a substantive theory continues to rage and this chapter has sought to provide some clarity in that regard.

The next chapter will discuss the research methodology as it relates to the findings. It will also discuss the research findings in relation to the underpinning theories.

Chapter 10

Discussion, Limitations and Recommendations

10.0 Introduction

This research sought to examine SME owners' and managers' understanding of the concepts of corporate governance and corporate sustainability as well as considering whether SMEs could relate corporate governance practices to the attainment of the sustainability of their firms. Grounded theory methodology was employed by the researcher who sought a framework that would enable the relationship between data and the emerging theory to be discerned. This was based on the limited literature that covers the exploration of the relationship between SMEs governance and corporate sustainability.

The preceding chapters have reported the data generated through a triangulation of survey questionnaires, semi-structured interviews, focus group discussion and journal keeping. They have also reported the processes of theory development. The generated data were subjected to grounded theory procedures resulting in the development of substantive theories. As a result, some of the preceding chapters have also reported extensive comparison of data against data as they emerged as well as data against existing theories.

This chapter seeks to examine briefly the research methodology in the light of its findings and to examine the substantive theories generated in chapter 9. Interestingly, this will be done against the backdrop of what appears to be non-existent prior study into the relationship between corporate governance and SMEs' sustainability: no publication was found which directly explores such a relationship. Consequently, this chapter will discuss existing theories underpinning this research in the light of the empirical evidence that was obtained. It will discuss the theories of stewardship, agency, shareholders, stakeholders and institutionalism to determine their relevance to the research findings. The original contribution of this study to the body of knowledge will be explored followed by an exploration of the limitations of the study.

10.1 Grounded theory's impact on this study

This study is underpinned by grounded theory and there is an ongoing debate regarding what could be considered theory in grounded theory. This led the researcher to examine the implications of this criticism in relation to this study. The ongoing debate has led certain scholars to conclude that most studies described as grounded-theory-based are largely descriptive rather than theoretical (Silverman, 2001). Criticising the grounded theory framework Burawoy (1991) argues that empirical generalisation is an outcome of grounded theory, which results in generic explanations that are abstracted from place and time. Furthermore, grounded theory is perceived as unable to discover a situation's particulars, failing to explain how those particulars are shaped by macro foundations, and lacking grounding in the reproduction and the maintenance of globalisation (Burawoy, 2000). In addition, there is the perception that grounded theory leads to astructural analysis, implying that methods that are inductive and generalisations that are decontexualised contribute to the astructural analysis.

In response to these criticisms of grounded theory, Charmaz (2006, p. 133) clarifies that grounded theory's strength lies in the ability to be applied across substantive areas. This research was able to examine corporate governance. It was able to explore how the concept relates to SMEs as well as how this phenomenon, in the applicable context, could lead to sustainability. While the outcome may appear generic, one of its strengths is the clear resemblance of the research finding to reality (Strauss and Corbin, 1998).

Furthermore, Charmaz (2006) advises that a researcher should be conscious of "how and when we move our analysis and ask whether we have gained intimate familiarity with the phenomenon before transporting an analysis". In that regard, the researcher constantly ensured that intimate familiarity with the phenomenon was gained before any analysis was conducted. Furthermore, Charmaz, (2005) pointed out that grounded theory that is contexualised begins with the sensitisation of concepts, which addresses concepts such as global reach, power, and differences. It concludes with inductive analyses which theorise the connections that exist between worlds that are local and larger societal structures.

10.2 Stewardship theory and SMEs

The sociological assumption that the stewards' interests are aligned with those of the firm (Albrecht *et al*., 2004) found two demonstrations in this research. The context where the SMEs owner acted as owner and manager, reflected in Fig. 8.1a, produced a total alignment of the interests of the manager and the firm. In the other context where the owner was an active manager working with another independently employed manager, as reflected in Fig. 8.1 b and c, the proximity of the owner (shareholder) and the manager, which was very high, enhanced the alignment of interest. As the study found, the owner was largely present in the running of the organisation, resulting in extensive interactions with the manager. This interaction also went with supervision, which helped in maintaining the stewards' focus on the firm's objectives and interests.

Certain features of SMEs appear to be aligned in some ways with the stewardship theory. As this study noted, similar to Carson *et al*. (1992), the owner and manager tended to be the same in SMEs. Consequently, their goals were aligned, which resulted in a high degree of commitment by the owner/manager. With respect to stewardship theory, it is premised on the trustworthiness of the manager and director (owner) in the belief that their interests are aligned with those of the company (Albrecht *et al*., 2004). In other words, stewardship theory reflects the nature of most SMEs. Furthermore, the assumption of the stewardship theory that the stewards' conduct is collective is consistent with the focus of the owner/manager (Davis *et al*., 1997). This is based on the manager's pursuit of the firm's objectives, which benefits the principal, in this context, an individual who holds the two identities simultaneously.

The duality of ownership and agency residing in a single individual or a group results in ownership and control overlapping (Brunninge *et al*., 2007). This duality in SMEs' governance, which the researcher noted in the empirical studies, creates a situation in which the managers' interests are rarely in conflict with those of the organisation. Instead the duality strengthens the firm in terms of flexibility and responsiveness (Acs *et al*., 1997; Aiginger and Tichy, 1991), as well as enhancing the commitment of the manager. The bundle of resources, as well as skills, available to the organisation in the person of the owner, who doubles as a manager, is significant in relation to the stewardship perspective. In view of the overlapping nature of ownership and control, as well as the inherent flexibility in SMEs, one may argue that such a situation makes it easier for the firm to be managed effectively. This is in view of the commitment which entrepreneurs have demonstrated in their dual position of owner and manager (Carson *et al*., 1995).

Against the backdrop of the relationship between stewardship theory and SMEs, the researcher argues that the need to police the system because of the suspicion that the managers may be self-serving and opportunistic may be diminished. Consequently, this may result in reduced costs relating to setting up systems and procedures in SMEs for effective policing. Furthermore, one may argue that there will be enhanced trust and interpersonal relationships within the organisation resulting from the governance system in SMEs.

10.3 Agency theory in SME governance and strategy

An organisation's ability to change its strategy, making it fit for the changing and evolving internal capabilities and environmental conditions, is a major variable affecting the outcomes of a firm and its governance (Goodstein and Boeker, 1991). Governance choices result in actions viewed as strategic choices, which could have performance implications (Wiklund, 1998, Wiklund *et al*., 2003). As such, one may argue that a mismatch between the governance choices and strategic choices could have unfavourable implications for the firm.

As SMEs are closely held firms, governance issues are relatively more entwined compared to the situation in large, publicly held organisations, where there is a clear separation of ownership and management (Schulze *et al*., 2001, 2002; Cowling, 2003). In SMEs the ownership, board of directors and top management quite often overlap, with the same individuals or people from the same family usually being involved at every level (Nordqvist and Merlin, 2002; Mustakallio *et al*., 2002). Consequently, ownership concentration and unification with management results in managers being subjected to less pressure from external investors and other monitors that demand transparency, accountability and strategic renewal (Carney, 2005). Such firms have been noted to be conservative and resistant to change (Kets de Vries, 1993; Sharma *et al*., 1997); introverted; paralysed by internal family conflicts; and in possession of a defensive attitude, which harms efficiency and undermines longevity (Poutziouris *et al*., 2004; Barach, 1984; Carney, 2005) Strategic change involves taking risks, which puts firms that are closely held, such as SMEs, at a disadvantage in relation to bearing risk (Meyer and Zucker, 1989; Chandler, 1990). As research has found, risk-taking and the degree of separation of ownership from management are positively related. This results in “foregone diversification and limited alienability in ownership” (Fama and Jensen, 1983, p.332) thereby increasing the cost of services that are risk-bearing. This also leads to minimal investment in projects that are risky (Chandler, *ibid*). It could further result in aversion towards product innovation and entry into new international markets (Hoskisson *et al*., 2000; Hill and Snell, 1988).

The owner-managers of closely held organisations develop their strategies at inception and their commitment to such strategies continues over a long period of time as a result of their personal involvement (Kimberly and Bouchikhi, 1995). With continued ownership by the same person or a limited group of people, the same values, interests and strategic practices continue. This, in the long term, insulates the manager-owners from changes in the environment and performance. The result may be failure to perceive and react to changes within the organisation and business environment that are critical (Goodstein and Boeker, 1991).

A firm’s board of directors serves as the formal link between managers and the firm’s owners, and is described as the peak of the organisation’s system of decision control (Fama and Jensen, 1983). It provides SME owner-managers with clear insight into the organisation's internal processes. Being closely held they result in less need for the control function of the board as SME boards usually exist only on paper (Huss, 2000; Brunninge and Nordqvist, 2004; Cowling, 2003). Very few SMEs, though, have boards of directors that are active, and the members of which are from outside and contribute to the development of the firms' strategy. These outside members would tend to perceive the board's role as different but complementary to that of the managers. They are likely to be more open to new ideas with regard to strategic options available to the firm in contrast to the perception of the insiders who may perceive this to be an extension of management's role (Mace, 1986; Ward, 1991; Fiegener, 2005; Forbes and Milliken, 1999).

The outside members of the board of directors tend to bring in new perspectives. This increases the firm's cognitive diversity due to their varied ways of obtaining information and how they interpret it. Such information and its interpretation may encompass the customers, operations, competitors and the company's market. Consequently, this improves the chances of detecting the needs and opportunities for strategic change in their participation in strategic decision-making (Borch and Huse, 1993; Leonard and Sensiper, 1998; Fiegener, 2005). They can provide critical links to strategic stakeholders, enhance the firm's reputation and legitimacy, and act as agents for acquiring resources, thereby providing conditions that are favourable to change (Zahra and Pearce, 1989; Borch and Huse, *ibid*; Goodstein and Boeker, *ibid*; Pfeffer and Salancik, 1978). Due to the unified nature of ownership and management, which is often the case in SMEs, top managers' change in strategy is less likely to be linked to the structure of ownership of the firm. This is in spite of an increase in the wealth of managers along with diversification and growth, instead of the total value of the firm's equity (Bethel and Liebeskind, 1993).

An important relationship exists between a firm's ownership structure, its board of directors and strategic change (Mustakallio *et al*., 2002, Goodstein and Boeker, 1991). There is the tendency of a board to be involved in strategic decisions in SMEs. When the CEO is the majority owner, the involvement of the board is less due to the owner-manager being very powerful and influencing strategic decisions and changes in ways which forestall board participation. On the other hand, a board with outside members would tend to participate more in strategic change in closely held firms involving many members of the owner-family as against firms with a single owner-CEO (Fiegener, 2005).

In summary, this study found that the nature of principal-agent conflict traditionally espoused in the agency theory would metamorphose in the context of SMEs, as reflected in the finding represented by Fig. 8.1.:

1. In the event that SMEs constitute boards of directors the nature of agency takes a dual form: in relation to the management as well as the board of directors. However, this is dependent on the basis which the board is constituted.
2. As a result of the agency taking a dual form the principal-agent conflict would apply to both the management and the board of directors, depending on the basis on which the board of directors is constituted.

The basis on which the board of directors is constituted is important. The constitution of the board on the basis of the SME owners selling some of their stake would result in some of the traditional agency situations where principal-agent conflict is an issue related to the manager. On the other hand, if the constitution of the board is on the basis of mere invitation by SME owners, then the principal-agent conflict may take a dual form, focusing on both members of the board of directors and the managers.

10.4 SMEs and the shareholder theory

The clearest expression of the doctrine of shareholder value is the idea that the firm belongs to the shareholders. This expression requires that the company is run in the best interests of the shareholders, ensuring that value is created on their behalf (Chilosi and Damiani, 2007). The findings of this study are consistent with this perspective as the structure and governance of SMEs appear to find expression in the doctrine of shareholder value. In the context of this research, SMEs owners also ran their businesses in their own interests. In situations where the roles of the owner and the manager were separated, the owner was almost always present, directly overseeing the activities of the manager. As Smith and Jeff (2003) argue, and supported by Friedman (1970), the capital provided by the shareholder should be spent in ways which the shareholder has authorised. In SMEs such capital is not only strictly spent in ways which the shareholders authorise when the owner also acts as the manager, the owner is usually there supervising the spending in situations in which roles of the owner and manager are separated.

The doctrine of shareholder value is based on the assumption that the firm's ownership is distinct from its control. This study found that in a large population of SMEs their owners played the dual role of director (owner) and manager (Table 8.1). In situations in which managers were noted to be distinct from the owner, the owners were either present as active directors (managers) or directors who were in the process of passing on the business to another party (Fig. 8.2). Therefore, this research finding is inconsistent with the assumption that underpins the doctrine of shareholder value. Rather, this study found consistently that SMEs ownership and control were the same in most cases.

The shareholder theory reasons that through a multiplicity of shareholdings the ownership in this corporate governance model is relatively dispersed (Berle and Means, 1932). This does not appear to be the same in the case of SMEs. This study found that ownership was usually concentrated in the hands of one individual, a small group of individuals or the members of a family. The finding is consistent with the views of Carson *et al*., (1995). Issues associated with dispersed ownership resulting from multiplicity of shareholdings have been raised by scholars (La Porta *et al*., 1998; Blair, 1995; Letza *et al*., 2004). They argue that risk arises as a result of the need for delegation of control of the business to directors and managers. The risk is based on the managers and directors focusing on their own interests to the shareholders' detriment (Jensen and Meckling, 1976). However, in relation to SMEs, the shareholders, in most cases, have little or no need to delegate control. This is because they occupy the dual position of owner and manager.

What is apparent in relation to shareholder theory and SMEs is that, while the theory applies more to large enterprises, certain features of SMEs address the concerns relating to agency. Such concerns, among others, include the noted reduction in the power of the shareholders resulting from diversified ownership of the firm (Blair, 1995); increased risk of managers focusing on their own interests to the detriment of those of the owners (Jensen and Meckling, 1976); and issues relating to decision-making resulting from diversified ownership (Sternberg, 1997; Blair, 1995).

10.5 Stakeholder theory and SMEs

The stakeholder theory requires businesses to be mindful of the interests of the parties that are affected by their activities. These parties include individuals, organisations, groups of people, the government, environment, entities who are impacted upon by the organisation's policies, actions, practices, objectives (Gibson, 2000). This requirement on organisations is premised on the interdependence that exists between them and the entities on which they impact. As a result of the interdependence the organisation serves a broader purpose (Kiel and Nicholson, 2003).

As Clarke (2004) argues, shareholders provide funds for the business but rely on employees to achieve the firm's productive purposes. The findings of this study align with the view of Clarke (*ibid*). SME owners provide the capital for the business and go on to employ staff who assist in the production or provision of the firm's products or services. The findings also indicate that SMEs are concerned about their stakeholders and take active steps to ensure that their concerns are taken care of. Participants indicated concerns regarding their ability to retain their employees when asked about having a board of directors. They considered that it might overload the business with the implication of disadvantaging it and making the business unviable and unable to retain the existing employees.

Infrastructures which SMEs rely upon are provided by the community. In the view of Jensen, 2001; 2002) local communities provide infrastructures and locations. They have expectations of improved quality of life. Consequently, under stakeholder theory SMEs are expected to consider their impact on their communities in terms of their relationships with the communities. The researcher noted that SMEs showed concerns for keeping up with the legislation and regulations put in place by the government and their local communities when they referred to their use of auditors. This, the SMEs indicated, was meant to ensure that their business activities and practices complied with government legislation as well as their communities' regulations.

The stakeholder model has been noted to nurture trust-building (Letza *et al*., 2004). It is perceived to promote inter-firm co-operation and encourages close relationships between managers, shareholders, suppliers, employees and creditors. It also encourages the integration of business ethics as a way of achieving a balance of the interests of the firm's contending stakeholders (Rwegasira, 2000). In the SMEs that participated in the research there was a strong indication of trust across the board in most of the firms. While the researcher is conscious of the 'observer-effect', they were no concrete reasons to doubt the genuineness of his observations. Furthermore, the researcher found that some of the SMEs were involved in inter-firm corporations of different forms, which encouraged close relationships and enhanced existing ones.

Weak investor protection is a key issue related to the concentration of ownership. It is an issue that mainly concerns minority shareholders which is notable in countries that practise the stakeholder model of corporate governance (La Porta *et al*., 1998). In the context of SME governance such concerns are non-existent. The ownership of SMEs is always very clear and is always in the hands of either an individual, a small group of individuals or a family. This composition was noted in this study and equally affirmed by Carson *et al*., (1995).

10.6 SMEs and institutional theory

An institution has been defined by Stinchcombe (1968) as a structure composed of powerful people who are committed to some interests or values. In the context of this research a SME could be considered an institution, and the management, which consists of the owner and manager, could be considered the powerful people who are committed to the institution's interests and values. Corporate governance has been noted to have at its heart issues relating to the separation and control of a firm, which gave rise to agency theory (Jensen and Meckling, 1976). Partly as a result of this, shareholders seek to maximise the return on their investments through effective corporate governance (Shleifer and Vishny, 1997). In effect, agency issues are addressed through actions such as corporate control by the market, contractual incentives and market-oriented approaches to disclosure. The findings of this research present a context that is not precisely the same as a large corporation where agency issues strongly apply. In SMEs the shareholder is the owner who doubles as the manager in most cases, thereby minimising agency issues.

The conventional agency theory has been criticised for being inadequate when it comes to catering fully for the effects of institutions on corporate governance (Aguilera and Jackson, 2003). However, agency theory is one of the theories that underpin neo-institutional theory. Neo-institutional theory's sociological perspective relating to the study of firms is argued to be focused on institutions that shape a firm's structures and systems (Dimaggio and Powell, 1983). It is the view of Meyer and Rowan (1977) that the way firms function and how they change is the main focus of neo-institutional theory.

For a range of reasons such as cost, size of their firms, the successes which they had achieved, among others, the participating SMEs did not appear to believe that corporate governance was an imperative. The research found that the majority of SME owners and managers found the concept of corporate governance fairly abstract and somewhat removed from their concerns. Consequently, the researcher considers that, strongly supported by these research findings, a concept which explains the existing governance system in SMEs may be more appropriate. As Cohen *et al*. (2003) advices, adopting or rejecting change on the basis of institutional theory should be studied in relation to social, political and historical issues. Such change or its rejection should be founded on an understanding of the resulting changes in the organisation's complexities. Consequently, the researcher believes that corporate governance, as it currently applies in SMEs, simply needs to be enhanced and reinforced rather than modified.

The enhancement of corporate governance in SMEs should be done by improving SMEs understanding of corporate governance in ways that they can best relate to. As a result, the researcher considers that adding the term 'governance' to SME creates the concept: small medium enterprises governance (SMEG). This would reflect existing practices in SMEs and encourage them to improve their understanding of governance issues in their organisations. Based on the constructivist tradition, the researcher proposes what could be considered the 'four cardinal points for small medium enterprises governance (SMEG)'. Therefore the new system's success, based on corporate governance recommendations, will be dependent on the similarities between a firm's existing systems and the new systems (Yazdifar, 2003; Kalbers and Fogarty, 1998). In effect, SMEG reflects the research findings as well as mirroring the principles of corporate governance and could serve as a framework for governance in SMEs as follows:

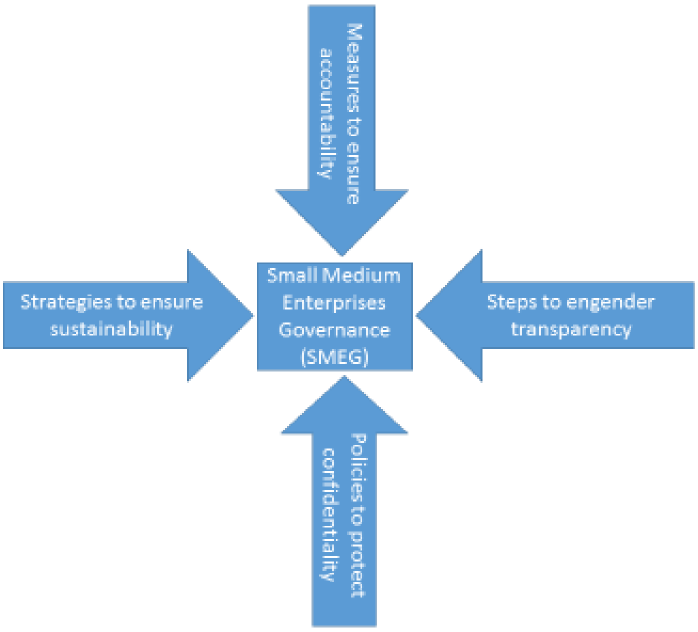

Fig. 10.1: A model of small to medium enterprise governance (SMEG)

10.6.1 Measures to ensure accountability

Corporate governance has been argued to be principally about improving corporate accountability (Mallin, 2007). This is intended to ensure that managers are held responsible for their firm's performance. In the context of this study SMEG, like corporate governance, embraces a range of organisational functions, such as accounting, management, business law, finance, economics and business ethics (Ahmad and Omar, 2016). These functions, in the view of the researcher, are areas of accountability. Consequently, the researcher argues that SMEs could apply SMEG, using it to create a framework that would aid the enhancement of the quality of their management. The institutional theory of corporate governance is consistent with this position and agrees with that of Yazdifar (2003). He argues that the internal processes of operation that are loosely coupled with features that are observable accomplish a firm's real work.

A unique feature of SMEs is the situation in which the principal (owner/shareholder) and the agent (manager), are the same person as reflected in Fig. 8.1a. As a result, the interests of the principal and the agent are aligned in the pursuit of the firms' objectives, as posited by stewardship theory (Albrecht *et al*., 2004). This places SMEs in a uniquely strong position of not being hugely concerned about agency issues. Consequently, the researcher believes that SMEs could enhance their practices of the principles of corporate governance, which he found in the empirical study to be in practice already.

Organisations derive legitimacy from their adherence to rules and regulations, which they are subject to in the course of carrying out their activities. (Barreto and Badden-Fuller, 2006). This enables them access resources which they depend on (DiMaggio and Powell, 1983). Corporate governance's fundamental role according to institutional theory is to ensure that a firm is properly linked to the environment. This is achieved through a clear definition of the organisation's goals, which should align with the expectations of the environment (Judge and Zeithaml, 2000). Therefore defining their businesses in ways that would engender accountability in SMEs would be an important way in which SMEs could derive legitimacy.

10.6.2 Steps to engender transparency

Due to the concentration of ownership as well as the unification of the board and management. SMEs are subjected to less pressure from investors and monitors that demand transparency (Carnet, 2005). Such organisations have been noted to be conservative, introverted, resistant to change, possessing attitudes that are defensive and harm efficiency as well as undermining longevity (Sharma *et al*., 1997; Carney, 2005). Universal business principles, such as transparency, accountability, discipline, fairness and responsibility are designed to regulate those behaviours of managers and directors (Cadbury Report, 1992; King Report, 2002).

All members of a firm have a responsibility to meet its objectives, confront associated risks to the objectives, and develop controls to manage those risks (Dahms, 2003). The importance of multiple inputs in a firm were highlighted as ensuring honesty in its activities. Also, simplicity ensures effectiveness and transparency (Kress *et al*., 2006). Transparency in a firm ensures that its stakeholders are able to access, assess and relate to it. As Parum (2006) argues, transparency contributes to constructive interaction within a firm. The researcher considers that incorporating transparency in SMEs' practices would aid them in a number of ways.

If SMEs imbibe the culture of transparency it will foster constructive and beneficial interactions with different agencies, such as financial institutions, regulatory authorities and pressure groups. The institutional theory of corporate governance is partly premised on the assumption that a firm's internal processes of operation, which are coupled loosely with structures that are observable, accomplish the firm's real work (Yazdifar, 2003). As a result of this perspective, organisations that have structures that are appropriate and are functional may avoid situations in which external parties investigate their functions in-depth (Meyer and Rowan, 1977).

10.6.3 Policies to protect confidentiality

The issue of confidentiality arose regarding the ethics of this study which brought to the fore the need for the researcher to interact ethically with the research participants and respondents. As previously noted by the researcher, confidentiality is not a tangible phenomenon in a business and is of secondary importance to other issues. In the course of data collection there was a recognition that certain data might not be accessible for confidentiality reasons. These issues related to the Information Access and Data Protection laws and appeared to apply across every facet of the organisations. The researcher identified it as an imperative which SMEs need to address due to the seriousness with which it was treated whenever the phenomenon arose. SMEs that participated in the research were very sensitive to, as well as protective of, their business and associated information.

The institutional demands of an organisation have been highlighted by Boons and Strannegard (2000). They note that they relate to things such as its structure, ideology and the processes it adopts in its quest for legitimacy. They also referred to the need for institutional demands to be managed effectively. In addition, they identified two separate structures in the firm: its formal structures that are visible and its actions that are carried out within the firm. The issue of confidentiality relates to institutional demands of processes and structures associated with actions within SMEs. In effect, SMEs' ability to manage issues relating to confidentiality within their businesses would earn them legitimacy.

10.6.4 Strategies to ensure sustainability

This research found that corporate sustainability is very important to SMEs. It was identified as the consequence in the application of the paradigm model. According to Robert (1988, cited in Pearce *et al*., 1990), sustainability is the strategy used to manage all the assets of a firm. For their part, Pearce and Turner (1990) consider that sustainability entails the maximisation of economic development’s net benefit HSD (1992 cited in Du Pisani, 2006) further argues that it is the adoption of activities and business strategies that satisfy the needs of a business and its stakeholders. Scholars have identified certain dimensions of corporate sustainability: business-related, such as traditional business practices that would ensure the firm’s endurance (cultural management, auditing, human resources, and strategy), the social dimensions, such as community activities and the environmental dimension (Wikstrom, 2010; Baumgartner and Ebner, 2010; Bonn and Fisher, 2011). The researcher considers that corporate sustainability goes from the purpose a firm is set up, through how it is actually run in order to achieve its objectives, to how it endures and impacts on the larger society.

Interestingly, the SMEs that participated in the research were already practising elements of corporate sustainability and had a fairly good knowledge of the concept. However, in the literature that was reviewed, there appeared to be a considerable gap in the reporting. The researcher considers that SMEs must place sustainability at the heart of their strategies, as some of their aims appear to align with corporate sustainability goals. Sustainability must be seen to underpin their value chains, which could provide them with competitive advantage (Porter and Kramer, 2006). Marrewijk, (2004) notes that people, policies, partners, strategies, leadership and resources are major factors that determine a firm’s level of sustainability.

According to Bonn and Fisher (2011), functional level strategies should provide the management with guidance regarding areas such as operations, finance, HR and marketing. In view of how structures (norms, rules, schemas, routines) are established as guidelines that are authoritative in terms of social behaviour, the deeper and resilient parts of the social structure become a focus for institutional theory (Scott, 2008). The behaviour of a firm along with the stakeholders' responsibilities and structures becomes entrenched in the values by which they abide. They are also entrenched in their political, social, cultural, economic and legal environments (Aoki, 2001). The adoption of sustainability principles into core strategies would help SMEs in entrenching values that would aid their attainment of their overall objectives.

10.7 SMEs and ethics

The motivations and rationale for the actions of SME owners and managers was considered by the researcher, with the aim of determining whether their decisions and actions were egoistic or altruistic (Howell and Sorour, 2016). In the context of this research, a deontological perspective implies that the basic moral category in a firm's governance lies in the roles and activities of SME owners and managers, rather than the outcomes of their roles, decisions and activities. In other words, the morality in SME governance (or the lack of it) is determined by the consistency of acts or omissions of its owners and managers rather than the results of such acts or omissions (Nwanji and Howell, 2004; Pritchard, 1949).

10.7.1 A deontological analysis

The study found that there is an alignment of the goals of the owner and the manager, which was partly a result of either a single individual occupying both positions of owner and manager, or two individuals separately occupying the positions and working closely together. This resulted in situations in which there were no major agency problems as occurred in firms where ownership and control were clearly separated. This implies, in the context of this research, that governance in SMEs may be ethical. The idea of ethics, according to Kant's deontological perspective, involves situations of obligations that are universal and absolute, as well as situations that are duty-based, which is underpinned by free will and rationality. (Kant, 2004; 2006). As such, the position of an SME owner could be viewed as possessing obligations that are universal and absolute. On the other hand, those of an SME manager as distinct from the owner, could be perceived to be duty-based. In both cases, whether the two roles are occupied by an individual or two distinct individuals, they are considered to be underpinned by free will and rationality. Kant goes on to argue that practical reasons inform moral actions rather than sensory impulses. Consequently, emphasis is placed on the motive that drives an action rather than the action itself, placing the idea of 'goodwill' at the core of having an agency that is rational.

Kant (1998) identifies goodwill to be autonomous and intertwined with the attributes that make humans beings agents of rationality. This creates a distinction between an individual acting merely on the basis of having a duty to act, for example, a distinct SME owner, in the context of this research, and on the other hand, an individual acting on the basis of being in a role to act, such as the SME manager. Free will has moral laws as the main basis for evaluating it, such that the moral law (categorical imperative) we develop for ourselves becomes the only rational structure that confronts goodwill. And the rational agency is free and autonomous, and known to obey such laws (Kant, *ibid*).

10.7.2 A teleological analysis

The issues of motive and ethical stance in corporate governance are further illuminated through the work of Machiavelli. It is relevant to the issue of corporate governance and leadership in a firm and their relationship to ends and means. There are questions on whether power could be used ethically in view of the recent corporate scandals, which demonstrated that individuals can be misled to the extent that they misuse power and wealth. Skinner (1981) points out that from Machiavelli's perspective, buying loyalty with wealth is a danger to the republic, or the firm in the context of this research. Interestingly, the analysis of an action's outcome determines whether the action is good or bad (Beu *et al*., 2003). As Donaldson and Werhane (1993) argue, consequences, the outcome of actions, are the main focus of teleology in determining whether an action is right or wrong. Machiavelli offers a perspective that applies to the study of business leadership. He considers that a good manager should be skilled and possess a good knowledge of key areas of a business that are critical to success. That in itself is a categorical imperative.

A link was identified between public good and *virtu*, which is relevant to corporate governance. Howell and Letza (2000) believe that, in the context of this research, corporate governance involves the survival of the firm. This perspective aligns with the idea of maximisation of shareholders' wealth, a narrow perspective of ethical conduct. They consider that ethical features were conferred on *virtu* by Machiavelli when he gave governance a distinct morality. These ethical features are considered to possess morality tending towards some ultimate goal. This aligns with a teleologic perspective of civil morality in which the ultimate goal could be the community, or in the context of this research, SMEs.

Owners and managers of SMEs have a responsibility to develop strategies and implement policies that would help their organisations to prosper. Machiavelli believes that a leader should identify what is necessary and examine the prospects that he or she is faced with, then take steps to protect the state, or the company, in the context of this research. He argues that a leader needs to "adapt his way of proceeding to the nature of times" as well as making himself amenable to changes in fortune (Machiavelli, 2009, p. 65). Machiavelli's teleological perspective on leadership outlines opportunities for forceful leaders who are driven by *virtu*. He also outlines the skills and traits which such a leader requires or should deploy in order to be considered capable (Kellerman, 2004).

10.8 SMEs and corporate sustainability

This study found that the SMEs were fairly well aware of the concept of corporate sustainability. It also found that the goals of SMEs owners and managers aligned with the principles of sustainability. The gap that was noted was in the degree of understanding of sustainability which was seen to impact on the extent to which sustainability principles were embraced and implemented. Consequently, SMEs need to improve their understanding of corporate sustainability and place the principles at the centre of their strategies.

A good strategy for sustainability must first be a good business strategy. It must fit the organisation's unique value-chain opportunities and threats, while simultaneously providing competitive advantages (Porter and Kramer, 2006). The research found that the SMEs that participated already had some sustainability strategies in their activities, although in others sustainability principles were not apparent. The concept of a sustainability strategy entails strategic thinking and action that are balanced, holistic and complex. Consequently, planning should take a balanced short- and long-term view (Slawinski and Bansal, 2009).

The overall strategy has to be driven by proactive management, setting out a definitive course towards achieving sustainable development objectives (Robert, 2000). This study found that SMEs have definitive goals and objectives and that some of them were proactive in their management. However, they lacked definitive courses of action enabling them to attain sustainable development objectives. Based on the foregoing, organisations transitioning to sustainability need to make critical decisions about which products or services to offer. They need to determine whether to modify their existing offerings, thereby making them more sustainable or whether to develop new products that are sustainable (Bonn and Fisher, 2011). In the view of the researcher, these decisions would also require SMEs to review the suitability of existing procedures with a view to integrating sustainability principles.

The major factors that determine a firm's level of sustainability include: people, policies, partners, strategies, leadership and resources (Marrewijk, 2004; Lee and Lo, 2016). Significantly, the challenging process of executing a sustainability strategy involves the following: people, systems, education and training, change management, employee and stakeholder engagement and human resources (HR) functions. These are areas which SME owners and managers would need to examine in their effort to achieve corporate sustainability. In addition, SMEs should review their functional-level strategies in order to provide management with guidance in such areas as operations, finance, HR and marketing. The focus of the HR strategy should aim to address the organisation's needs and should include guidelines on selection and recruitment of employees, that will support the organisation's efforts towards sustainability. The strategy should also provide the required training and development to improve employees' knowledge and skills in relation to a range of issues concerning sustainability. Furthermore, job descriptions, performance appraisal and systems of reward should take cognisance of employees' contributions (Bonn and Fisher, 2011).

Studies have identified four types of sustainability strategy that exist: introverted strategy, which is risk-mitigating and entails focusing on legal issues and external standards; extroverted strategy, which entails legitimisation and concentrates on external relationships and licenses to operate. Others are conservative strategy, which focuses on efficiency, for example, cleaner production and eco-efficiency; and the visionary strategy, which is holistic and focuses on sustainability issues in all business activities as providing a competitive advantage, originates from differentiation and innovation (Baumgartner and Ebner, 2010; Robert *et al*., 2002).

In this study, SMEs used risk-mitigating strategies. They ensured compliance with regulations and legislations and some went the extra mile by engaging auditors to assist in ensuring compliance. SMEs deployed extroverted strategies through their relationships with regulatory authorities. They also were making consistent efforts to ensure compliance with regulations through their business practices as well as their employment of auditors. Conservative strategies are areas in which this research noted significant gaps despite meaningful efforts by SMEs. They embraced some sustainability and environmentally friendly practices, but a holistic approach was absent due to lack of awareness of certain sustainability principles and practices, and limited availability of funds.

10.9 Contributions of the research to the body of knowledge

This study has made theoretical, practical and methodological contributions to the body of knowledge. It appears to open a new sphere of research, linking corporate governance as an issue in SMEs to corporate sustainability. This has direct practical and methodological implications.

10.9.1 Theoretical contribution

As earlier noted in the reviewed literature, SMEs are critical elements of a society's economic system and they have been extensively studied (Gibb, 1993). In relation to corporate governance, studies have been carried out in the broad field of corporate governance practices as well as in the area of corporate governance theories' relationship with SMEs (Cadbury, 1999; Nwanji and Howell, 2007; Carson *et al*., 1992; Guest, 2009). Furthermore, extensive studies have been carried out in the field of sustainability (Sikdar, 2003; Wikstrom, 2010). However, in the course of the literature review no material was found either linking or exploring the relationship between corporate governance in SMEs and the issue of corporate sustainability in SMEs. As a result, this research attempts to address that gap as its principal unique contribution to the body of knowledge.

This study highlights limited awareness of SMEs of corporate governance and its implications, such as enabling sustainability. Previous studies have highlighted the significance of corporate governance in SMEs and also issues relating to corporate sustainability. However, this study has identified SMEs' lack of enthusiasm to embrace the principles of corporate governance as a central tenet of their activities. The reasons owners and managers provided included the size and structure of their firms, the nature of their business, ease of decision-making as well as volume of business. Consequently, this study brings to the awareness of SMEs, policy-makers and scholars these key issues that require further examination and emphasis, perhaps in simpler and friendlier ways.

Furthermore, this study found that governance in SMEs creates a situation in which stewardship theory and agency theory are perceived to coincide. The researcher noted that in some cases, the owner of the business (director) played a dual role of the principal (owner) and steward/agent (manager) as ‘owner/manager’. This means that in such situations, due to the duality of the owner’s role, stewardship theory and agency theory appear to be coincidental.

10.9.2 Contribution to practice

There are practical implications of this research for the management of SMEs, for example agency issues in relation to the board of directors. The agency relationship is a situation in which one or more individuals (the principal) engage another individual (the agent) to perform services on their behalf. This involves delegation of duties and authority relating to decision-making (Jensen and Meckling, 1976). Unlike in large corporations, agency-related issues in SMEs may apply to both the agents (directors and managers), as espoused by agency theory, as well as to the board of directors, which is not clearly espoused by agency theory. The study found that SMEs owners, in considering the issue of engaging a board of directors, which might have independent members, had agency concerns. They were particularly concerned about the agents’ (independent members’) attitude to risk. What is unique in this finding, therefore, is that the agency-related issues being raised by SME owners related to the board of directors instead of a firm's management team as reported in previous studies (Eienhardt, 1989).

This research notes that an increased awareness of governance issues in SMEs would enhance their ability to attain corporate sustainability. Evidence shows that SMEs have their unique governance system resulting from their size and that they adopt practices which they consider relevant to their businesses. Furthermore, evidence shows that SMEs have imbibed the sustainability practices of which they have become aware. Therefore the researcher argues that an increased awareness of governance issues, their impact and their relationship to sustainability practices would enhance sustainability in SMEs.

This research has implications for stewardship and agency theory. Regarding the stewardship theory, it identifies SMEs as a context in which the interests of the firm appear largely aligned with those of the managers in view of the fact that the owners of the firms are usually also the managers. With regard to agency theory, the two key issues of information asymmetry and divergence of interest between the principal and agent (Hill and Jones, 1992) are likely to be absent or minimal due to the owner of the business simultaneously playing the role of the manager. Furthermore, and fundamentally, this research identifies SMEs as a context in which both stewardship and agency theories coincide as a result of ownership and control resting on one individual or group of individuals. This contrasts with large corporations where ownership and control are largely separated, leading to issues such as conflict of interests of owners and managers, and information asymmetry (Hill and Jones, *ibid*).

Furthermore, the findings of this research reveal that the coincidence of stewardship and agency theory results in a reduction in agency costs. The need for the establishment of external and internal structures and mechanisms for monitoring and control (Haniffa and Hudaib, 2006) is likely to be reduced. This is a result of the owner being the manager, consequently removing or minimising the notion of managers' opportunistic behaviours, which result in agency costs.

10.9.3 Contribution to methodology

The implication of a new sphere of research opened up by this study is a corresponding application of a methodological approach in the new sphere. Grounded theory has been used to study a number of areas within and outside management studies, such as nursing (Partington, 2000; Charmaz, 1980). As noted earlier, no literature was found relating to the examination of corporate governance in SMEs and its relationship to sustainability. Consequently, the application of grounded theory in the study of the phenomenon implies that grounded theory has been applied to a new context.

10.10 Limitations of the research

The survey respondents as well as the interview and discussion participants demonstrated commendable understanding of the key concepts and issues. However, there were instances when they showed limitations. A better understanding of the issues at stake would have enabled them to offer better perspectives on the range of issues they were faced with. Also, there was a serious issue of access to the respondents in terms of reach and time. Many of the them had serious time constraints which was the reason some of them who would have participated declined to do so. Those who did participate were also constrained for various reasons, for example, employees were unavailable when customers needed attention.

The researcher was unable to examine in any meaningful detail how corporate governance theories apply to SMEs, though that was not an objective of the study. Such examination would have provided more insight into the running of SMEs and would have provided an idea of the corporate governance theories likely to enhance the sustainability of SMEs. The time frame and resources available for this research were limiting factors. With additional resources the research sample could have been broader in order to produce more representative results. Alternatively, areas not sampled could have been sampled in order to see how this would affect the overall outcome. Similarly, constrained by these factors were the research participants. Due to the nature of their organisations they all had a very limited number of employees, hence their own presence at work was highly valued. They were always happy to participate and provide information, but their attention was always in demand, hence the researcher had to approach things very cautiously at all times.

10.11 Recommendations for further study

There is need for further studies to be carried out in this area to consider the significance of SMEs and the benefits which they stand to gain by embracing governance principles. In view of the issues that were identified during this research it may be very helpful for such studies to be carried out in ways that would relate specifically to SMEs. This would help practitioners to relate to it. As one practitioner pointed out, corporate governance feels a rather abstract issue. Small to medium enterprise governance (SMEG) would make the idea less abstract.

It may be interesting to apply different methodological approaches in order to enrich the outcomes. For reasons that have been explained, particularly the limited number of previous studies, grounded theory was deemed appropriate in order to attempt to generate a substantive theory from data. Also, the researcher pursued a constructivist variant of the grounded theory, which accepted the researcher's experiences as relevant data. It also permitted the researcher's thoughts on issues relating to the study to be recognised. All of these minimised the proximity of the researcher to the researched. Consequently, it may be interesting to see the outcomes of methodological approaches that increase this proximity.

This research focused largely on understanding the perceptions of SME owners and managers regarding how their firms' governance might impact on their firms' sustainability. To that extent analysis was mainly focused on what corporate governance and sustainability meant to that sector. Another dimension that could have been examined is the theories of corporate governance in order to ascertain what obtains in the sector. Along the same line, there could also be an examination of which corporate governance theory is more likely to enhance SMEs' sustainability. This would slightly broaden the sphere as well as increasing the depth of the study by way of ascertaining which theories of corporate governance serve SMEs best in their quest for sustainability. This theoretical examination may make an interesting study.

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Appendix 1: Sample of questionnaire

Corporate governance questionnaire

Dear Sir/Madam,

I am conducting research into 'corporate governance: a strategic tool for SMEs' sustainability. This is a multi-disciplinary research focused on corporate governance as it relates to SMEs and examining how good governance practices could result to a firm's sustainability. It will also contribute to the development of literature across these fields of study.

Thank you for your cooperation and agreeing to participate in this study.

Regards,

Jude Dunkwu

Please circle the option that best describes you

Demographic and background details

i. Gender: Male/Female **Nature of business (industry)**: ______________________

ii. Age group: 5 – 10; 11 – 20; 21 – 30; 31 – 40; 41 – 50; 51 – 60; 61 - 70

iii. I have owned/managed an SME for: Less than 5 yrs; 6 – 10 yrs; 11 – 15 yrs; 16 – 20 yrs; 21 – 25 yrs; 26yrs or more

iv. My role: Owner/Member of board of directors/Manager

v. My highest level of education: No qualification/College Diploma/Associate degree/Degree/Higher degree

vi. I have been a part of this SME: 10 yrs or less; 11 – 20 yrs; 21 – 30 yrs; 31 - 40yrs; 41 – 50yrs; 51– 60yrs; 61yrs or more

vii. No. of employees: 1 – 10; 11 – 20; 21 – 30; 31 – 40; 41 – 50; 51 – 100; 101 – 200; 201 – 250; 251 - 500

viii. Annual revenue: < £25,000; < £100,000; < £250,000; < £500,000; < £1m; < £10m; < £50m; < £100m; up to £250m

Inquiry section: Please tick the option that best reflects your personal opinion.

Please circle 'Yes' or 'No' for question 1 only. Circle one answer only for questions 2 – 10:

1 – Strongly Disagree; 2 – Disagree; 3 – Neutral; 4 – Agree; 5 - Strongly Agree; N/A – Not applicable; DTA – Decline to answer

1. Our firm has a board of directors
   Yes/No

2. I understand the meaning of corporate governance
   1 2 3 4 5 N/A DTA

3. We consider corporate governance as something very important in the running of our organisation
   1 2 3 4 5 N/A DTA

4. Corporate governance does not apply to the entire organisation
   1 2 3 4 5 N/A DTA

5. Corporate governance issues concern only senior management staff
   1 2 3 4 5 N/A DTA

6. I don't have a good understanding of what sustainability means

1 2 3 4 5 N/A DTA

7. Our firm considers sustainability only when it comes to issues that affect the environment

1 2 3 4 5 N/A DTA

8. We don't see any relationship between our firm's corporate governance practices and sustainability

1 2 3 4 5 N/A DTA

9. Our governance practices may help our firm achieve sustainability

1 2 3 4 5 N/A DTA

10. Our firm is too small to think about corporate governance issues

1 2 3 4 5 N/A DTA

Thank you for taking time to complete this questionnaire. Would you be interested in participating in the interview part of this research: Yes/No

Appendix 2: Explanatory note for questionnaire

Corporate governance

Corporate governance relates to how an organisation is managed. An organisation is owned by individuals who have invested their money and resources. In managing an organisation there are rules that need to be followed and there are laws that have to be obeyed. Corporate governance involves following the rules, obeying the laws as the organisation is being managed in order to be able to give returns to the individuals who invested their money.

Sustainability

As the name suggests, sustainability relates to making sure that something lasts long.
In the context of this research, sustainability in addition to trying to make sure that an organisation lasts long, recognises that resources for everything is not limitless. Therefore, sustainability is a principle that seeks to encourage ways through which resources could be used efficiently.

Appendix 3

```
GET
  FILE='C:\PhD\SPSS\PhD data.sav'.
DATASET NAME DataSet1 WINDOW=FRONT.
CODEBOOK  Industry [n] Business [n] Gen [n] Role [n] Education [n]
Employees [s] Revenue [s] Board
    [n]
  /VARINFO POSITION LABEL TYPE FORMAT MEASURE ROLE VALUELABELS MISSING
ATTRIBUTES
  /OPTIONS VARORDER=VARLIST SORT=ASCENDING MAXCATS=200
  /STATISTICS COUNT PERCENT MEAN STDDEV QUARTILES.
```

Codebook

Notes

Output Created		08-OCT-2017 12:13:59
Comments		
Input	Data	C:\PhD\SPSS\PhD data.sav
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	367

Syntax		CODEBOOK Industry [n] Business [n] Gen [n] Role [n] Education [n] Employees [s] Revenue [s] Board [n] /VARINFO POSITION LABEL TYPE FORMAT MEASURE ROLE VALUELABELS MISSING ATTRIBUTES /OPTIONS VARORDER=VARLIST SORT=ASCENDING MAXCATS=200 /STATISTICS COUNT PERCENT MEAN STDDEV QUARTILES.
Resources	Processor Time	00:00:00.03
	Elapsed Time	00:00:00.03

```
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Industry

		Value	Count	Percent
Standard Attributes	Position	2		
	Label	SME's industry		
	Type	String		
	Format	A8		
	Measurement	Nominal		
	Role	Input		
Valid Values	801	Hospitality & life style	66	18.0%
	802	Training	7	1.9%
	803	Beauty & accessories	48	13.1%
	804	Technology	46	12.5%
	805	Furniture & leatherwork	33	9.0%

	806	Retail	62	16.9%
	807	Photography and printing	37	10.1%
	808	Care	13	3.5%
	809	Cleaning	4	1.1%
	810	Vehicles	16	4.4%
	811	Flower & decor	13	3.5%
	812	Cloth production & mgt	16	4.4%
	813	Business services	2	0.5%
	814	Finance	4	1.1%
	888	DTA	0	0.0%

Business

		Value	Count	Percent
Standard Attributes	Position	3		
	Label	Nature of business		
	Type	String		
	Format	A8		
	Measurement	Nominal		
	Role	Input		
Valid Values	1203		2	0.5%
	2001	Printing	20	5.4%
	2002	Leatherworks	18	4.9%
	2003	Furniture	11	3.0%
	2004	eCigarette	8	2.2%
	2005	Laundry	6	1.6%
	2006	Apparel producer	10	2.7%
	2007	Beauty & accessories shop	20	5.4%
	2008	Grocery	16	4.4%
	2009	Convinence shop	33	9.0%
	2010	Tech shop (mobile phones)	29	7.9%
	2011	Tech shop (computers)	7	1.9%

	2012	Tech shop (general electricals)	10	2.7%
	2013	Restaurant	36	9.8%
	2014	Bookshop & stationaries	7	1.9%
	2015	Salon	16	4.4%
	2016	Photography	16	4.4%
	2017	Hotel	8	2.2%
	2018	Vehicle maintenance	3	0.8%
	2019	Vehicle accessories	8	2.2%
	2020	Care services	11	3.0%
	2021	Training	7	1.9%
	2022	Carpet	1	0.3%
	2023	Flower & decor	15	4.1%
	2024	Entertainment	8	2.2%
	2025	Tailor	7	1.9%
	2026	Cleaning	4	1.1%
	2027	Business Centre	2	0.5%
	2028	Pawn broker	4	1.1%
	2029	Clothing	4	1.1%
	2030	Car wash	5	1.4%
	2031	Cloth retail	4	1.1%
	2032	Smoothie & ice cream shop	6	1.6%
	2033	Carpet	4	1.1%
	2034	Clothing accessories	1	0.3%
	2222	DTA	0	0.0%

Gen

		Value	Count	Percent
Standard Attributes	Position	4		
	Label	Gender		
	Type	String		
	Format	A8		
	Measurement	Nominal		

	Role	Input		
Valid Values	1	Male	202	55.0%
	2	Female	165	45.0%
	9	DTA	0	0.0%

Role

		Value	Count	Percent
Standard Attributes	Position	7		
	Label	My role		
	Type	String		
	Format	A8		
	Measurement	Nominal		
	Role	Input		
Valid Values	301	Owner	64	17.4%
	302	Member of Board of Directors	5	1.4%
	303	Manager	195	53.1%
	304	Owner/Manager	103	28.1%
	333	DTA	0	0.0%

Education

		Value	Count	Percent
Standard Attributes	Position	8		
	Label	Highest qualification		
	Type	String		
	Format	A8		
	Measurement	Nominal		
	Role	Input		
Valid Values			2	0.5%
	401	No qualification	21	5.7%
	402	College Diploma	205	55.9%
	403	Associate Degree	17	4.6%
	404	Degree	86	23.4%
	405	Higher Degree	31	8.4%
	444	DTA	4	1.1%

44444		1	0.3%

Employees

		Value	Count	Percent
Standard Attributes	Position	10		
	Label	Number of employees		
	Type	Numeric		
	Format	F8		
	Measurement	Scale		
	Role	Input		
N	Valid	367		
	Missing	0		
Central Tendency and Dispersion	Mean	599.67		
	Standard Deviation	31.292		
	Percentile 25	601.00		
	Percentile 50	601.00		
	Percentile 75	601.00		
Labeled Values	601	1 - 10	291	79.3%
	602	11 - 20	55	15.0%
	603	21 - 30	11	3.0%
	604	31 - 40	2	0.5%
	605	41 - 50	6	1.6%
	606	51 - 100	1	0.3%
	607	101 - 200	0	0.0%
	608	201 - 250	0	0.0%
	609	251 - 500	0	0.0%
	6606	DTA	0	0.0%

Revenue

		Value	Count	Percent
Standard Attributes	Position	11		
	Label	Annual revenue		
	Type	Numeric		
	Format	F8		
	Measurement	Scale		
	Role	Input		

N	Valid	359		
	Missing	8		
Central Tendency and Dispersion	Mean	703.32		
	Standard Deviation	7.905		
	Percentile 25	702.00		
	Percentile 50	702.00		
	Percentile 75	703.00		
Labeled Values	701	£25,000 or less	52	14.2%
	702	£100,000 or less	158	43.1%
	703	£250,000 or less	90	24.5%
	704	£500,000 or less	35	9.5%
	705	£1m or less	15	4.1%
	706	£10m or less	5	1.4%
	707	£50m or less	0	0.0%
	708	£100m or less	0	0.0%
	709	£250m or less	0	0.0%
	777	DTA	4	1.1%

Board

		Value	Count	Percent
Standard Attributes	Position	12		
	Label	Our firm has a board of directors		
	Type	Numeric		
	Format	F8		
	Measurement	Nominal		
	Role	Input		
Valid Values	1	Yes	41	11.2%
	2	No	322	87.7%
	5		1	0.3%
	6		1	0.3%
Missing Values	System		2	0.5%

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Frequencies

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	Cases Used	Statistics are based on all cases with valid data.
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Statistics

		Board of directors necessary	I understand the meaning of corporate governance	We consider corporate governance as something very important in the running of our organisation	Corporate governance applies to the entire organisation	Corporate governance issues concern only senior management staff	I have a good understanding of what susta
N	Valid	357	366	367	367	365	
	Missing	10	1	0	0	2	
Minimum		1	1	1	1	1	
Maximum		6	6	6	6	6	

Frequency Table

Board of directors necessary

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	72	19.6	20.2	20.2
	Disagree	146	39.8	40.9	61.1
	Neutral	62	16.9	17.4	78.4
	Agree	32	8.7	9.0	87.4
	Strongly agree	15	4.1	4.2	91.6
	Not applicable	30	8.2	8.4	100.0
	Total	357	97.3	100.0	
Missing	System	10	2.7		
Total		367	100.0		

I understand the meaning of corporate governance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	65	17.7	17.8	17.8
	Disagree	76	20.7	20.8	38.5
	Neutral	17	4.6	4.6	43.2
	Agree	99	27.0	27.0	70.2

		Frequency	Percent	Valid Percent	Cumulative Percent
	Strongly agree	103	28.1	28.1	98.4
	Not applicable	6	1.6	1.6	100.0
	Total	366	99.7	100.0	
Missing	System	1	.3		
Total		367	100.0		

We consider corporate governance as something very important in the running of our organisation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	40	10.9	10.9	10.9
	Disagree	31	8.4	8.4	19.3
	Neutral	90	24.5	24.5	43.9
	Agree	102	27.8	27.8	71.7
	Strongly agree	50	13.6	13.6	85.3
	Not applicable	54	14.7	14.7	100.0
	Total	367	100.0	100.0	

Corporate governance applies to the entire organisation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	37	10.1	10.1	10.1
	Disagree	72	19.6	19.6	29.7
	Neutral	115	31.3	31.3	61.0
	Agree	58	15.8	15.8	76.8
	Strongly agree	21	5.7	5.7	82.6
	Not applicable	64	17.4	17.4	100.0
	Total	367	100.0	100.0	

Corporate governance issues concern only senior management staff

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	21	5.7	5.8	5.8
	Disagree	39	10.6	10.7	16.4
	Neutral	155	42.2	42.5	58.9
	Agree	53	14.4	14.5	73.4
	Strongly agree	25	6.8	6.8	80.3
	Not applicable	72	19.6	19.7	100.0
	Total	365	99.5	100.0	

Missing	System	2	.5		
Total		367	100.0		

I have a good understanding of what sustainability means

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	63	17.2	17.4	17.4
	Disagree	105	28.6	29.0	46.4
	Neutral	23	6.3	6.4	52.8
	Agree	108	29.4	29.8	82.6
	Strongly agree	55	15.0	15.2	97.8
	Not applicable	8	2.2	2.2	100.0
	Total	362	98.6	100.0	
Missing	System	5	1.4		
Total		367	100.0		

Our firm considers sustainability only when it comes to issues that affect the environment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	36	9.8	9.8	9.8
	Disagree	70	19.1	19.1	29.0
	Neutral	126	34.3	34.4	63.4
	Agree	67	18.3	18.3	81.7
	Strongly agree	28	7.6	7.7	89.3
	Not applicable	39	10.6	10.7	100.0
	Total	366	99.7	100.0	
Missing	System	1	.3		
Total		367	100.0		

We see relationship between our firm's corporate governance practices and sustainability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	25	6.8	6.8	6.8
	Disagree	54	14.7	14.8	21.6
	Neutral	177	48.2	48.4	69.9
	Agree	50	13.6	13.7	83.6

	Strongly agree	15	4.1	4.1	87.7
	Not applicable	45	12.3	12.3	100.0
	Total	366	99.7	100.0	
Missing	System	1	.3		
Total		367	100.0		

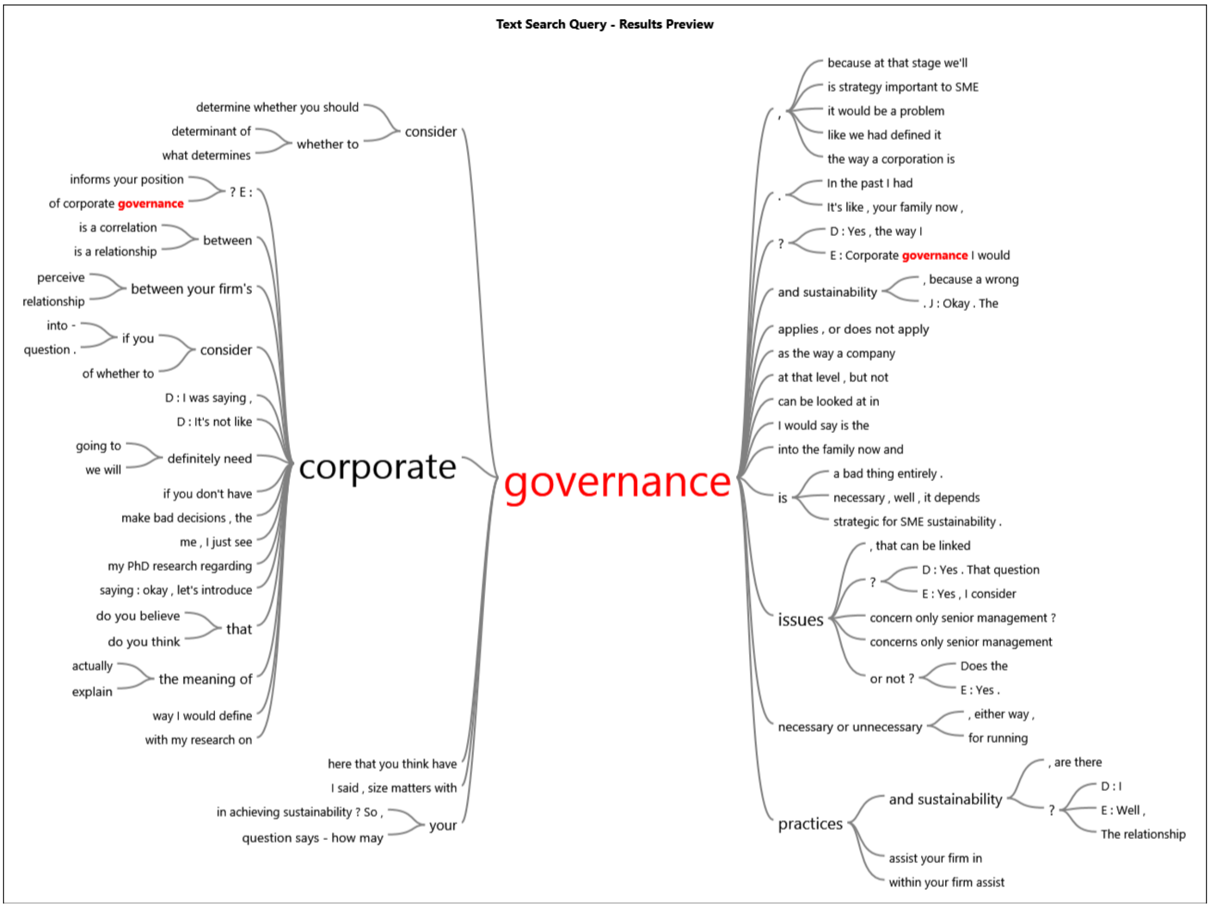
Our governance practices may help our firm achieve sustainability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	2.7	2.7	2.7
	Disagree	33	9.0	9.0	11.7
	Neutral	185	50.4	50.5	62.3
	Agree	54	14.7	14.8	77.0
	Strongly agree	28	7.6	7.7	84.7
	Not applicable	56	15.3	15.3	100.0
	Total	366	99.7	100.0	
Missing	System	1	.3		
Total		367	100.0		

Our firm is too small to consider corporate governance issues

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	107	29.2	29.2	29.2
	Disagree	56	15.3	15.3	44.5
	Neutral	61	16.6	16.7	61.2
	Agree	58	15.8	15.8	77.0
	Strongly agree	62	16.9	16.9	94.0
	Not applicable	22	6.0	6.0	100.0
	Total	366	99.7	100.0	
Missing	System	1	.3		
Total		367	100.0		

Appendix 4A



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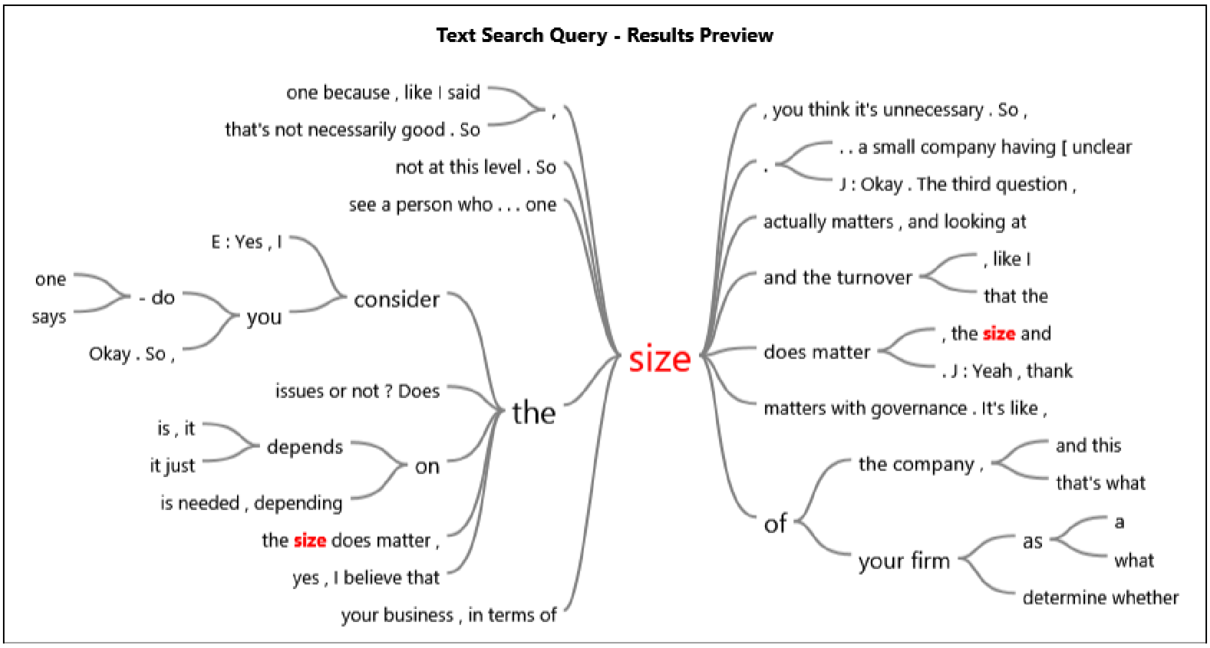

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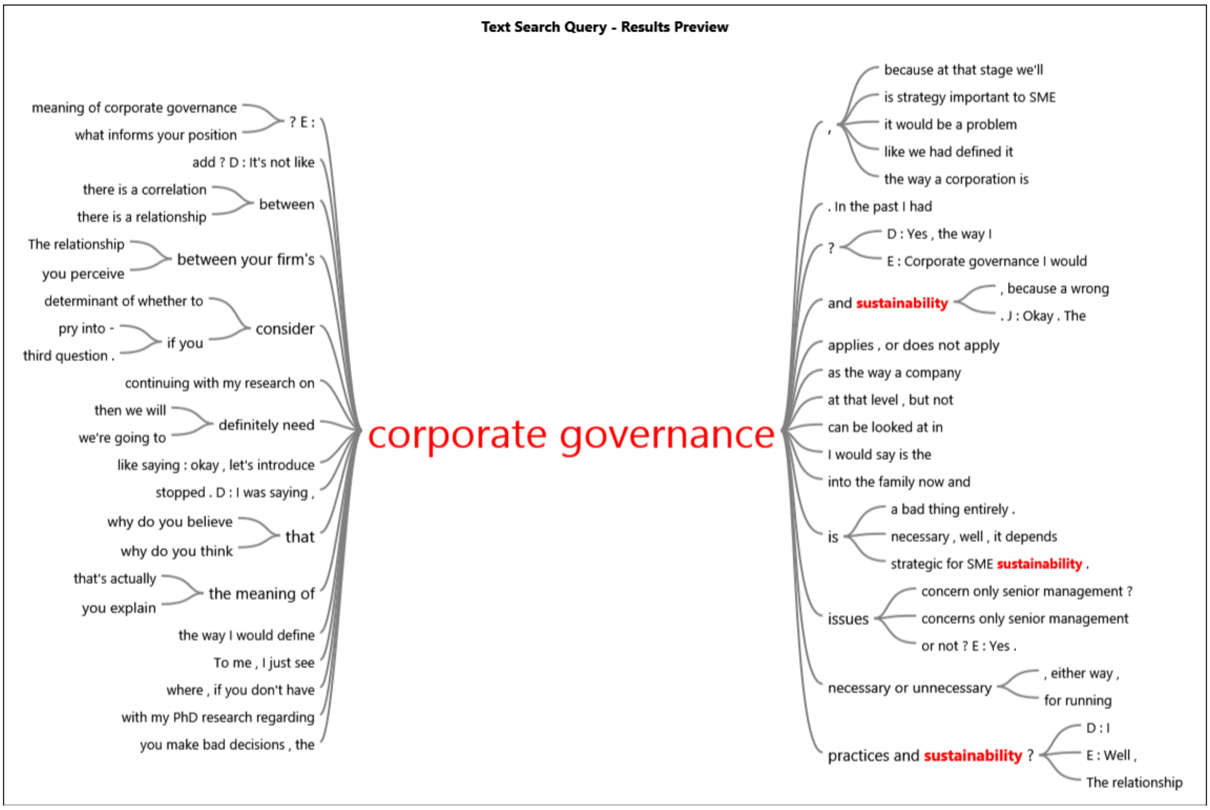

Text Search Query - Results Preview
corporate governance
meaning of corporate governance
what informs your position
? E :
add ? D : It's not like
there is a correlation
there is a relationship
between
The relationship
you perceive
between your firm's
determinant of whether to
pry into -
third question .
if you
consider
continuing with my research on
then we will
we're going to
definitely need
like saying : okay , let's introduce
stopped . D : I was saying ,
why do you believe
why do you think
that
that's actually
you explain
the meaning of
the way I would define
To me , I just see
where , if you don't have
with my PhD research regarding
you make bad decisions , the
because at that stage we'll
is strategy important to SME
it would be a problem
like we had defined it
the way a corporation is
. In the past I had
?
D : Yes , the way I
E : Corporate governance I would
and sustainability
, because a wrong
. J : Okay . The
applies , or does not apply
as the way a company
at that level , but not
can be looked at in
I would say is the
into the family now and
is
a bad thing entirely .
necessary , well , it depends
strategic for SME sustainability .
issues
concern only senior management ?
concerns only senior management
or not ? E : Yes .
necessary or unnecessary
, either way ,
for running
practices and sustainability ?
D : I
E : Well ,
The relationship

Appendix 5

TRANSCRIPTION CITY TYPING SERVICES

http://www.transcriptioncity.co.uk

info@transcriptioncity.co.uk

0208 816 8584

[00:00:02] Good evening and welcome to today's interview mrs. Evelyn. Dear me my name is dude. This has to do with my peers do research regarding corporate governance strategic tool for SMB sustainability. This is a dare. Your welcome to The View. I have 10 questions here that I've lined up. [31.6]

[00:00:34] For you. It is full of men. They are full of questions to the questions which you probably did for the first phase of the research. [12.0]

[00:00:48] The first question has to do with oh well it's phrased this way. If you consider a board of directors necessary or a necessary for your phone. What informs your position. [17.2]

[00:01:07] Thank you Mr. [1.0]

[00:01:11] I will say that my firm is this small one. So I will not do that at this precise moment that we do need the director. I like the director of my for my home just north of us about 10 employers added. [14.5]

[00:01:26] Our total it does. Roughly. [3.3]

[00:01:30] About It can be 250 to get us there. [4.4]

[00:01:35] And um so to speak. So I did not see the need for this widow. The separate point of their actors to you know make the decisions because. It was just too much protocol. You know it's just a small thing. I'd want. Keep in mind though we can make our decisions. [17.8]

[00:01:53] And naeyc down to the employees and you know run the company effectively the way it is at the moment. I mean that's you can only use the advertising that comes in as the company now gets bigger where you have. More like number of employees I'm looking at probably a hundred. Whether you talk about because then you need more people to be able to make the right decisions to make decisions regarding how the news should be run because it is now much bigger. As this process will make our or. [30.2]

[00:02:24] I will kind of know when that all dollar tool purchases are the neutral oversight preach an independent board may bring you to do your business. [16.9]

[00:02:44] The ideas they are about to bring you to their position as well as some of them have been tracked. [5.9]

[00:02:51] Has the board of directors. [1.6]

[00:02:54] Well it depends on what kind of advice would you bring in though. [5.2]

[00:03:01] Like I said because the economy is small you know we have a net life network of friends and other people in similar similar businesses as well so we do have our meetings where we can pass off ideas for each other and you know discourse and you know we have you know there is the government also has this help. It's for small businesses. We don't need any advice or anything. We always go there to sort it. Which is much easier than you know having a board of directors and the bureaucracy so much. Sometimes you want to get something done before sending them off for just a simple decision to meet take so much time. [42.3]

[00:03:44] So whether or not this process Monomyth you're a good quality vapor's or what kind of ideas are bringing in. Anything I wanted to I can't get across you know from my network of friends or from the government from the council. [13.6]

[00:03:58] Is there something that you just said here which I think makes sense and I want to explore a bit collaboratively with your colleagues your network to get ideas and all of that you what the polls that have been further out is a fair chance that. You [21.0]

[00:04:19] could set up your network in a manner that because to Tudeh an informal board such that that network says you've got five friends. The kind of business you doing and you're able to bring the five of you together. Such that you share ideas you address each other you provide oversight. [27.9]

[00:04:48] To each other's business. So it's probably in a way a prop up board all. Behave. But at the same time we are doing this informally and it's costing the business. Do you think that will make sense. Do you think they'll be helpful. In any way. [21.8]

[00:05:11] Yes that would be helpful too because if you had a boiler there it is more structure as you rightly say and again when you do have to be them Queeg. [9.0]

[00:05:21] Yes. You know we're looking at a lot of equipment and then. [3.1]

[00:05:25] Most of it you have to fix anything you have to fix you know every average and as a year's end everybody gets some agreement. But we were there to actually say this and you can match out once you know your friends you know may be over now. [14.8]

[00:05:40] I'm not sure we can bounce off ideas. It's much more relaxed. We can just like you know. Get information or get ideas and we can get there. I'll use our advice free of charge so to speak yes I agree that says. Now I don't think it's fair that's happiness. You know that they're actors you know you have to like getting everything out there is methane. Give me two whitespace one more time with you. I'm a critic of killing a such as me because this is more complicated. [34.6]

[00:06:18] This is a serious question. How do you explain the meaning of corporate governance. [6.8]

[00:06:26] Corporate God knows was seised. We the company is actually wrong. [5.1]

[00:06:35] You know it's just a couple of us as the economy is wrong. That is how well we did the whole process of making decisions regarding the way the company will go you know. But it is the business side. Employees always does. [14.7]

[00:06:51] Simply put we a is wrong. There's a well defined corporate governance competition is wrong. Competition is governed or the affairs should go in or they win on you or that it is to the wrong competition or to run a good business. No. OK let me quickly move to the third question says if you consider corporate governance necessary or necessary for Rudd in your firm. [29.6]

[00:07:22] What informs your position. [1.9]

[00:07:28] Corporate governance. [1.1]

[00:07:31] Is necessary. It depends on. Well it depends on form please. As for just looking at it now from our previous discussion already we've talked about you know how important it is. Every organization or any thing you meet somebody needs to be at the helm of office to make a decision. Now it depends on how you think it is. Do you have a body you people having to make a decision or is it just one person. Like I said with my all these just we're small so we don't need a body of people to make a decision. You know like how things should we run these does you know myself. But then again we have a network of friends and all I know would get up off ideas. But when the company is big when it is that big well how good are this you know huge turnover or we're more decisions you know more in a more hidden to push together to make that decision. Devin you've been in the corporate logo a couple of where you need a lot more bodies to get more people more individuals to come together to make the decision. So that's one business does not you know might not be able to have all the answers like he said No man is an island we know that we are all one person does it have all the answers. So as it expands Yes there will be the need for that you know for more people to come in to give to make decisions regarding the affairs of the country. But when it is a small one I think one person is just fine. [1:21.5]

[00:08:53] So my question it depends on the size of the economy and this has to do with small to medium. It is what's the medium must be has so far. It's really too because some companies mean some laws you know medium sized companies just got wind which is zero or two hundred medicines. We know you as is my a small economy. We just have 50 employees. But you could see a person you know who one size small company making the happiness on about probably about a million a million pounds a year. That's really kind of just me. It's just not just yourself. You may need to trust in you know years of all those years of Bay Gath case you need me to do it for five bucks. You know you need it. There it is. We would make some decisions. So I I would just say that you need the complete body where the company is large or with you know the resources that you know is quite too big for one person alone to decide or look to manage. So it does depends on the size of the economy that we see. [1:03.8]

[00:09:58] But yes it is needed. It's needed depending on the size. [4.0]

[00:10:07] Well first question the for Costco says Why do you think that corporate governance applies or does not apply to your firm so you have to. That applies to your firm. I think you've got to also provide a set of reasons. [18.9]

[00:10:26] So you largely address the fourth question. So while I wanted to see if Webster says Why do you believe that corporate governance issues concerns only senior management staff. What again you have said that is based on how the wants to now was phrased whether you thoughts concerns about staff or not. So maybe in the proper way to approach this is. Do you think it's concerns all these senior management staff or possessed everybody with the devices. [38.0]

[00:11:05] I think it causes everybody within the organization. But the final decision or the final decision the final decision rests with the senior staff the person in the business at the time of office. If you have disgruntled employees who are going to affect the output of your business there's a good Tophet you know whatever your business in the whatever your company does. So you need to be able to take a cut plays a long maybe secretive schemes which do you know employs you in a way you have with employees you can be sure that it helps with the image of the company it also helps the arquit it's obviously it's not profit as. But if we have disgruntled employees. We have employees who are not happy. You know there's no way that we're putting our best. And that also affects you know that our potential is the image. So whatever decisions are being made it is always good to see us you know start from the bottom find out what the Todds and the wishes of employees are. You know it's precisely where it says the company you know and then from there before you know a final decision is made because sometimes they do have some ideas. They do have old ideas on how things can be done. You know they could be board and they won't cause a bit of any financial risk do with those at the top as to what to do. [1:16.3]

[00:12:22] But you know it's not all sittwe shows we're the employees to be courted for as you know is that what you do is you know you put up being brought in or whatever you know that doesn't really cause any employees. You know it is the sort of thing on how to move business forward. By the way it has to do with your. Libido. CS It has to do with you know we know that breach affects the morale of the staff and the staff needs to be resulted in needs to do that. It needs to be carried along. You know kruschen wheezing which you know anything that you do have to give good activity anything that can help to improve the image or the quality of the employees I think should be cause altered. So I would see their capability and of course everybody. [45.3]

[00:13:10] Okay the question is what do you understand system and benefits will be. [5.0]

[00:13:17] Sustainability is you know to sustain that leg you know literally the last is something seen on something going on for as long as possible. You don't set up your business because you don't want you to feel tomorrow you need to be able to you know hold true by whatever challenges you know that is around you know you expect the business to. Be mortal Gloria for a long time. So I think that as I think sustainability is just lasting or like to do with the storms only knows to be viable for you know for for so long period of time. [38.5]

[00:13:58] What ticks me to the next question which says do you think there are other areas of your business besides environmental issues where sustainability applies. [12.9]

[00:14:15] The record of a levee reading. OK. He says Do you think there are no other areas of your business besides environmental issues where sustainability applies. [15.1]

[00:14:33] There are there are other issues that I think you've just environmental issues that are facing this region of the business. There can be. We do the commonly. Your point is no longer absolutely safe. There's providing this service within the area you know where the service is no longer relevant or you know it's a drop in sales because you know there's stiff competition from outside you know further then those things that you know could affect some of those that could be an economic downturn. Queens could also have plenty of business you know in you know employees you could have you know staff may not be. [39.7]

[00:15:13] You may not have the right kind of staff because they're not adequately trained. You know and that could also affect the productivity. And that again could that fits your business you know it's just that your efforts of business be sustained. You know there's the long haul. So yes Deadmen going into other factors as well with their faces we see there's a lot of environmental issues. So I don't think it just that our mental issues we've been dealing with issues that could affect that me. There's just a lot of that business. [30.6]

[00:15:44] Okay. [0.3]

[00:15:45] Now the next question is what relationship do you perceive to be true. Your first corporate governance practices and sustainability. [8.9]

[00:16:00] Well. [0.4]

[00:16:02] If you revise discussions the corporate governance has left we had the wrong is high because these actually wrong. [6.1]

[00:16:09] Now if a decision is made there is no reach that fix you know the you know the jaffe's the business income the business skills business. [11.1]

[00:16:21] Of no way that businesses need to close down. You know we do that we do know that we pay there is we're you know companies because you know I mean it was a bad business deal. You know we're in a band with is of course from the top. It's not the employees that made this decision it is the person at the helm of office. So you've let us come together. The you know the person the person who is it. Jarrett if I'm wrong more wrong. You know making it about what you don't make a bad deal that would affect the business and then business would go downhill. And you know eventually probably close up or something. [35.8]

[00:16:57] So that's it. So I believe that there is a relationship between corporate governance and sustainability because a wrong decision and then if those a wound up where it doubles it we would move a good decision a good deal a good group to move if we can move to move the company forward bring about exposure. We think with those employers and then be policy recognition of the company. So yes there is a correlation but you've probably got less sustainability. [28.8]

[00:17:28] Naturally the next question is. [2.2]

[00:17:33] Are your governments practices within your firm. Assist your firm in achieving says deniability. Well look you see we have a network. [16.5]

[00:17:50] Of Friends we could balance of ideas. It's like looking at him. [4.7]

[00:17:57] Each time you're looking because you're in a business when you're very competitive environment you are looking for ways in which you can move to give an edge over your competitors to have an edge away competitors. So you need to look at those things that you can do you know to be able to do that's something that makes you stand out you need to find out your unique selling point. And apart from you trying to do things that you know you know give away of competitors you also have to make sure that you're doing things to also keep your employees have quite a few schemes of where have the patience for my employees. [35.6]

[00:18:35] There is also a lag. So you are one of these three that you do too because you know we have a lot of training schemes also for the employees as well to keep them because they are the ones who actually you know do the job. [14.8]

[00:18:50] You know we are we know that we all work together. [2.2]

[00:18:53] What you have. You don't have any staff to get the job done. Those companies are going to sell it so there's another way to move themselves. So it's like their is dues that out there. And then also low though we try also to keep our list of what's going on you know the environment you know what's up with us. So. But you know so it's like you. Yes. [21.2]

[00:19:14] The things that we're doing you know we'll keep looking for one thing or the other you know ones of ideas about ways in which we can keep the you know keep the company alive you know keep moving asked you know how you have meetings that's needs for these that important things that you can do to feel the need to sustain that business. So just the past five years of keeping the flow ease you know making the right decisions you know expanding our product is finding our market share within the environmental community in that town so that at least if they are seen by their kids that are an issue that's really relevant in the services which it provides to the community or to the environment. [42.1]

[00:19:56] The. Yeah. When we find ourselves. [4.0]

[00:20:02] The last question is do you consider the size of your phone. That's a determinant of whether to consider corporate. Well consider governance issues or not. [13.3]

[00:20:16] Yes. [0.5]

[00:20:19] So you consider the size of your firm is what determines whether to consider governance issues. [8.6]

[00:20:29] Yes of course that is size and the turnover. Like I said they are wrong. [5.4]

[00:20:36] You could have you know a small firm if I if it does if I does have led 10 employees I don't see why you haven't bothered that it is to make a simple degenerative watch as much as I need or you know in you know these to do I mean or how to advance the common point. But it might as my employees increase. You know I have good employees and maybe it's tolerable probably close to a million a day. [27.1]

[00:21:03] But this is a lot of money and you know me mean Renee the most popular and most vocal approaching you quickly you know spend upfront as they spend it resources how to Vesty so that it's you know something they need to know. [15.4]

[00:21:19] So yes I do believe that the size does matter the size that or with. [6.5]

[00:21:28] Thank you very much Lisa do me your time down there. Days ago. Where me this research. Why did they say you very much increase that. [12.4]

[21:38.6]