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Effect of Corporate Governance on the Performance of Small and Medium Enterprise's (SME'S) in Lusaka's Hardware Industry

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ABSTRACT
In recent decades, corporate governance has become a central, interesting and controversial topic in most developing countries. Therefore, this study focused on establishing the effect of corporate governance on the performance of SME's in the hardware industry in Lusaka. This study sort to achieve the following objectives: Establish the impact of board independence on the profitability of small and medium-sized companies, to evaluate the effects of separation of powers between the shareholders and management on business performance and develop a framework which could be used in enhancing sustainability of corporate governance in the operations of SME'S in the long-term. This research was both qualitative and quantitative in nature. A cross sectional study design was used. A sample of 80 respondents was used in which 80 questionnaires were developed and administered with a return rate of 93%. The study used purposive sampling. The study found that 87% of the firms did not have a board in existence and firms which had a board in existence disagreed to the assertion that there was efficient use of resources when a board was present. It was also disagreed that firms profit margins and earnings were better off when a board was present to oversee the operations of the firm. Regarding the effect of separation of powers between the shareholders and management on business performance. It was found that (64/75) firms had shareholders who were also managing the business; therefore, there wasn't separation of powers between managers and shareholders. Regarding the effect of board independence and firm profitability, the results show that when the board was in office, the firm had a positive effect on stock returns. The results of this study show that (50/75) disagree and (10/75) strongly disagree. Lastly the last objective found that the corporate governance framework applied to any business has to be fit for purpose, which includes being appropriate for the size and maturity of the business .The study therefore concluded that a majority of SME's have not embraced the idea of corporate governance. Many firm owners have preferred to be their own decision makers as regards to the operations of their business. There is less confidence in engaging external clients in the affairs of their businesses. Based on the findings and engagements with the responses, the researcher suggests conducting a study on enhancing corporate governance in SME's.

Keywords: *corporate governance, performance, sme's, hardware industry*

I. INTRODUCTION

Corporate governance has emerged as a focal and contentious subject in developing countries, directing and managing company affairs to promote corporate responsibility and shareholder value. According to Nasrallah and El Khoury, 2022). (Claessens, Djankov, Fan and Lang, 2002) suggests that sound corporate governance framework enhances access to capital, reduces the cost of capital and promotes better performance, more value for all stakeholders. While much research has focused on corporate governance in large firms, the significance of corporate governance in small and medium enterprises (SMEs) in the hardware industry remains largely unexplored, particularly in developing countries (Adonu,2017). SMEs face unique challenges due to the lack of separation between ownership and management, often rendering the need for corporate governance less apparent (Adonu, 2017). This eliminates the need for a CG to run a small business. The need for effective corporate governance is no longer limited to listed companies, but also applies to small and medium-sized enterprises (SMEs), because the principles of good corporate governance are the basis of economic success. (Ndagu & Obuobi, 2010). It provides a set of key tools that small and medium-sized enterprises (SMEs) can use to support competitive survival and growth. Small businesses that want to attract investment can be best managed as a value proposition. According to Nuwagaba (2015), small and medium enterprises enhance economic development because they are an important source of employment and a key tool

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for poverty reduction (Nuwagaba, 2015). In some literatures, it is known that maintaining a culture of good corporate culture aimed at achieving the long-term goals of stakeholders is associated with effective corporate governance (Nasrallah and El Khoury, 2022). Furthermore, corporate governance has been shown to play an important role in decision making in both small and large firms. This helps to avoid leaks or disclosures of confidential information and mandates for management (Lukason and Camacho-Miñano, 2020). In addition, corporate governance facilitates governance decisions and allows managers and leaders to maintain accountability and transparency (Lukason and Camacho-Miñano, 2020). As a result, it is very important for SMEs in the hardware industry to implement effective and efficient corporate governance principles because they will benefit the organization's operations and have a significant impact on the overall economic growth of the country (Lukason & Camacho-Miñano, 2020). Better economic growth is linked to better corporate governance and better use of corporate resources (Lukason & Camacho-Miñano, 2020). Therefore, this study aimed at establishing the effect of corporate governance in relation to business performance of SME's in Lusaka's Hardware Industry.

Statement of the Problem

Small and medium enterprises share distinctive challenges that require specific governance practices. However, resources on corporate governance have mostly focused on large and publicly traded companies. In Zambia, SME's have become a key source of employment (Nuwagaba, 2015), Nevertheless, there is a high failure rate in SME's, in the hardware industry and it is imperative that ways are found to turn around the sector since it plays a very important role towards the success of the economy. Further, many SMEs in Zambia's hardware industry is failing due to how these organizations run their businesses. For instance, SME's owner also serves as the manager (Nuwagaba, 2015). It is therefore suitable that a tailored made governance framework with structures, policies, and practices that mitigate these risks and support sustainable growth of business while recognizing the resource constraints typical of SMEs are formulated.

Therefore, introducing corporate governance frameworks, including initiation of Boards of Directors, can assist the SMEs to initiate new ideas, formulation and implementation of business plans for improved corporate performance (Nasrallah & El Khoury, 2022).

The Purpose of the Study

The purpose of this study was to examine the effect of corporate governance in relation to business performance of SME's in Lusaka's Hardware Industry.

Specific Objectives

The study sort to achieve the following:

1. To establish the effect of board independence on the profitability of SME's.
2. To evaluate the impact of separation of powers between the shareholders and management on business performance.
3. To develop a framework which can be used in enhance sustainability of corporate governance in the operations of SME in the long term

Research Questions

1. How does board independence affect the profitability of SMEs?
2. How does the separation of power of the proprietor from management have an impact on business performance?
3. What framework can be used to strengthen corporate governance in SME's?

II. LITERATURE REVIEW

2.1 The Impact of Corporate Governance on the SMEs Performance

Small and Medium -Sized enterprises (SME's) are often run by the owner who is the sole proprietor and manager (Hart, 1995). Unlike Large firms, there is less distinction between ownership and management in SME's.In particular, sole proprietorship businesses are not obligated to follow any disclosure requirement which means they have little to no need for corporate governance principles (Abor and Adjasi, 2007). Despite these arguments, there is still a strong case for SME's to adopt corporate governance principle. As stated by Bill Witherell, Director of Financial and Enterprise Affairs, OECD "good corporate governance supports market confidence, integrity and efficiency, ultimately promotes economic growth and financial stability". Overall, these studies support the importance of firm level corporate governance, especially in countries with weak legal protections for investors (e.g., Klapper and Love, 2004) and (Larina, L.B., et al, 2021). Corporate governance affects economic development, particularly by facilitating the flow of financial capital to companies in developing countries. If implemented perfectly, good corporate governance ensures that SMEs in the hardware industry are well managed elsewhere and earn the trust of investors and lenders.

2.2 The Effects of Separation of Powers between the Shareholders and Management on Business Performance

Corporate governance in the business realm encompasses principles such as transparency, fairness, independence, accountability, responsibility, integrity, and social responsibility. According to Mukute and Marange (2006), corporate governance refers to the system through which organizations are directed, controlled, and held accountable. Rossouw and Sison (2006) argue that the aim of corporate governance is to ensure that companies manage their operations in a manner appropriate to their stakeholders. However, there exists a power imbalance between shareholder meetings and the board of directors, leaving shareholders at the mercy of the board (Daniel, 2010; Azumah, Baah, & Nachinaab, 2021; Foya, 2022). The key question thus becomes how shareholders can ensure that the board of directors acts in the best interests of the company. It is suggested that general shareholder meetings can leverage their power over managers to motivate and compel them to work diligently in line with the shareholders' wishes. Daniel and Angualia (2020) investigate the power dynamics between shareholders and the board of directors in corporate governance. The board of directors holds significant authority over the management of the company, and any misconduct by the board leaves most stakeholders vulnerable. This implies that management structures that excessively reinforce the power of the board of directors lack legitimacy in terms of organizational management. This analysis will explore the implementation of good corporate governance principles, ensuring board compliance with the law, and ultimately enhancing business practices. The disclosure of remuneration can boost shareholder confidence, thereby improving the company's reputation and overall performance. Consequently, this study highlights the significance of information disclosure as a crucial factor in enhancing corporate image and performance. Moreover, a study conducted in 2017 found a positive relationship between the financial philosophy of small firms and various factors, including the CEO's position, CEO duality, board size, total assets, and firm performance. For small companies in the service industry, financial goals are linked to the CEO's role, total assets, and company performance, while for manufacturing firms, financial goals are correlated with the size and strength of the board of directors. The study also determined an optimal board size of six and its correlation with relevant activities.

2.3 Corporate Governance Framework

The Companies Act 1963 (Act 179), the Securities Industry Act 1993, and the Zambia Stock Exchange (GSE) Act serve as the primary legal references for corporate governance in Zambia. These laws, along with the Zambia Corporate Governance Framework, form the basis for responsible and effective management of companies operating in the country. The framework emphasizes accountability, transparency, and ethical practices with the goal of enhancing investor confidence, fostering sustainable economic growth, and safeguarding stakeholder interests. One significant component of Zambia's corporate governance framework is the Companies Act, which outlines rules and guidance applicable to companies of all sizes and industries. This legislation establishes the importance of proper corporate governance by specifying requirements for board composition, shareholder rights, financial disclosure, and the qualifications and responsibilities of directors. Moreover, Zambia's corporate governance framework seeks to reinforce the role of the board of directors and encourages transparent communication with stakeholders through material disclosures. Integrity and ethical conduct are also key principles of the framework, aiming to promote responsible behavior within organizations. Additionally, the framework encourages the adoption of corporate social responsibility initiatives that generate positive impacts on the environment, communities, and society at large. By embracing principles of accountability, transparency, and integrity, the framework endeavors to attract investment, drive economic growth, and protect the interests of all stakeholders, including the environment.

III. RESEARCH GAPS

Most of the literature reviewed on this area of knowledge is based on SME financial performance and not their operational performance, which brings a gap in knowledge. Some are based on developed countries that cannot be used to represent the same in developing countries such as Zambia, for instance Aksoys & Bozkus (2008) is based on Turkish SMEs. However, some study on corporate governance have mostly focused on large and publicly traded companies. These make the corporate governance mechanisms and the operational performance of the SMEs in Zambia a unique component in need to explore among SMEs. Small and medium-sized enterprises contribute significantly to economy development and these enterprises are kept sustainable by adhering to good corporate governance principles (Lusaka, 2021; Turner et al., 2016). Studies have revealed that in Zambia, SMEs have become a key source of employment(Nuwagaba, 2015) especially amongst the youth who seek to find employment according to International Journal of Commerce and Management Research, Volume 2, Issue 6, 2016, Pages 41-46. Nevertheless, there is a high failure rate in SMEs and it is imperative that ways are found to turn around the sector since it plays a very important role towards the success of the economy. The current study intends to investigate the significance of corporate governance in SMEs in Zambia by determining whether the presence of corporate governance frameworks improves company performance in order to fill in the knowledge gap on high failure of SMEs in

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Zambia, the impact of corporate governance on SMe's operations and performance and the best fit model for SMEs in developing countries like Zambia.

IV. THEORETICAL REVIEW

Theoretical Models of Corporate Governance

The review comprised the theoretical review where three theories were reviewed, empirical review that was reviewed according to the objectives of the study. This section discussed the different theories, models and concepts and practices which underpins corporate governance. The agency theory, Stewardship theory and the stakeholder theories are all used to discuss the major aspects of corporate governance among SMEs which discussion eventually leads to the hypothesis for this study.

Agency Theory

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

Stewardship Theory

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

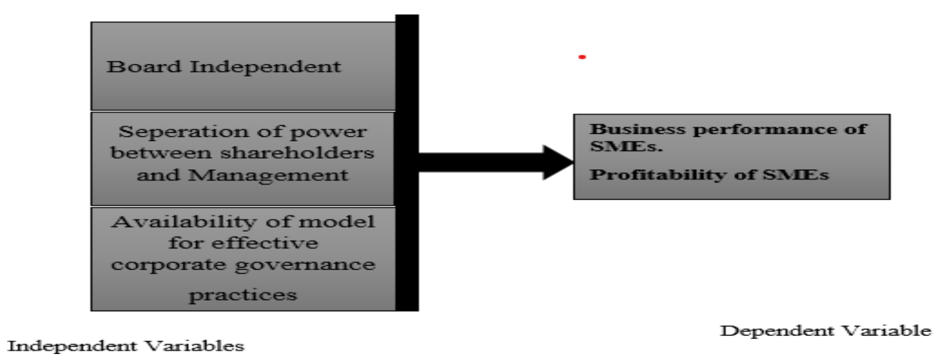
Stakeholder Theory

The stakeholder perspective of corporate governance departs from the assumptions underlying a shareholder perspective of corporate governance. This perspective sees corporations as superordinate entities in which a variety of parties have vested legitimate interests. As such, this perspective also recognizes interests of stakeholders other than shareholders that need to be protected (Maassen, 2000). Proponents of this theory argue that the firm should pay attention to other stakeholder groups like customers, suppliers, employees and the local community. According to them these groups also have a stake in the business of the firm and therefore should have board representation for effective corporate governance. (See Gibson, 2000; Freeman, 1984).

Conceptual Framework

Figure 3.1 outlines the conceptual framework the relationship between independent and dependent variables that this study is based on. Thus, it demonstrates the relationship of board independent Separation of power between shareholders and Management, Availability of model for effective corporate governance against Practices, business performance and profitability of SMEs who sell house hold goods and materials.

Figure 3.1: Cconceptual framework of the study



Source: The Researcher, 2023

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1) **Null Hypothesis:** The board independence has no significant effect on the profitability of SMEs.
2) **Alternative Hypothesis:** The board independence has a significant effect on the profitability of SMEs.
3) **Null Hypothesis:** The separation of powers between the shareholders and management has no significant impact on business performance.
4) **Alternative Hypothesis:** The separation of powers between the shareholders and management has a significant impact on business performance.

V. METHODOLOGY

Research Design and Setting

This research adopted both qualitative and quantitative in nature, and cross-sectional study design was used (Cresswell, 1994). Mixed methodology approach is chosen because it offers a logical ground, methodological flexibility and an in-depth understanding of smaller cases (Fleming, 2011; Swanson, 2015), and helps generalise findings and implications of the researched issues to the whole population. It enables the researcher to generalize the findings to a large population. Allows analysis and determination of relationship between dependent and independent variables A sample of 80 respondents was chosen for the study. This study was conducted in Lusaka district. Lusaka District is a district of Zambia, located in Lusaka Province. The specific site of this study was Lusaka central business district around town Centre area that import and sell hardware goods or materials.

Study Population

Sullivan (2009) describes a population; as a well-defined set of people, services, elements, and events, group of things or households that are being investigated. Saunders, et al. (2009) defined the target population for a study as the entire set of units for which the study data are to be used to make inferences). The target population for this research was Operators of Small and medium enterprises operating on a larger scale. There are approximately about 1.2million SMEs in Lusaka however my sample was based on 100 SMEs in hardware business around town center in that business. Operators of such business come from different locations within Lusaka. Our targets for the research were business owners and the employees who are part of management.

Sample Size Determination

The sample size for this research was determined using the Yamane Equation (Yamane, 1997) (as shown below) was used for calculation of the sample size:

$$n = \frac{N}{1 + N(e)^2}$$

n= Sample size

N= population size

e= precision value of 10% and 95% (0.05) confidence level

N = (100) Number of SME's dealing with Hardware

$$n = \frac{100}{1 + 100(0.05)^2}$$

$$n = 80$$

Sampling Method

The investigator used the purposive sampling technique in this research. The purposes of selecting this technique are that purposeful sampling is a technique widely used in qualitative research for the identification and selection of information-rich cases for the most effective use of limited resources (Patton, 2002). This involves identifying and selecting individuals or groups of individuals that are especially knowledgeable about or experienced with a phenomenon of interest (Cresswell & Plano Clark, 2011). In addition to knowledge and experience, Bernard (2002) and Spradley (1979) note the importance of availability and willingness to participate, and the ability to communicate experiences and opinions in an articulate, expressive, and reflective manner.

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Data Collection

Data collection refers to gathering information to support and confirm certain facts (Kombo, 2002) and (Mwanaumo, E.M., et al, 2020). This study used questionnaires to collect primary data. Therefore, it is very important to design interviews so that data is collected correctly and the results are meaningful. A total of 80 questionnaires were designed and administered, and 75 out of 80 questionnaires were filled out correctly. Upon completion of data collection, the questionnaires were scored and data edited, coded and entered into the computer for analysis. The data was analysed and reported by descriptive narrative (Sounders and Lewis, 2012). The study also used ANOVA and Chi-square test to determine the association between corporate governance and performance (Hauke and Kossowski, 2011). The results of this data gave the researcher a basis to make conclusions about the study. All the tests and were conducted at 95% confidence level (p-value 0.05).

Ethical Consideration

The research observed main ethical issues including, voluntary nature of participation, obtaining of informed consent; ensuring confidentiality and privacy of participants, institutional ethical issues, which included obtaining authority to conduct research and scientific honesty (Fleming, 2011).

VI. RESEARCH RESULTS AND ANALYSIS

Demographic Characteristics

This study was conducted in Lusaka district. Lusaka District is a district of Zambia, located in Lusaka Province. The specific site of this study was Lusaka central business district around town Centre area that import and sell hardware goods or materials. The sample size for the research was 80 respondents. After the distribution and collection of the questionnaire it was discovered that only 75 questionnaires were completely filled. Gender distribution of the respondents, revealed tat 67/75 respondents were males and 8/75 were females. Distribution by age of respondents showed that the majority of the respondents were aged between 26 and 23 (47/75) followed by those who were between 34 -41(20/75). Regarding eeducational backgrounds of the respondents, the research found that majority of the respondents had attained tertiary education, (48/75) and (23/75) had gone only up to secondary school level.

On types of goods being traded, the study investigated what type of goods were being traded by the respondents and the findings of the research showed that majority of the respondents were trading in household goods (24/75) followed by those who traded in clothing (9/27) and those who traded in Hardware (15/27). To cement these results, the study also the level of experience in doing the field by asking the number of years in the business. To which it was revealed that, 89 percent of the firms had been in existence for more than five years and only a minority 11 percent have been in existence for less than five years.

Demographic Characteristics

Sex	**#**	**Age**	**#**	**Education**	**#**	**Goods traded**	**#**	**Number of years**	**#**
Male	67	18-25	8	Primary	2	Agro	7	Less than 5 years	11%
Female	8	16-33	43	Secondary	23	Household goods	24	More than 5 years	89%
		34-41	20			Clothing	17		
		41 and Above	4	Tertiary	48	Computer accessories	9		
				Never been to school	2	Hardware	15		

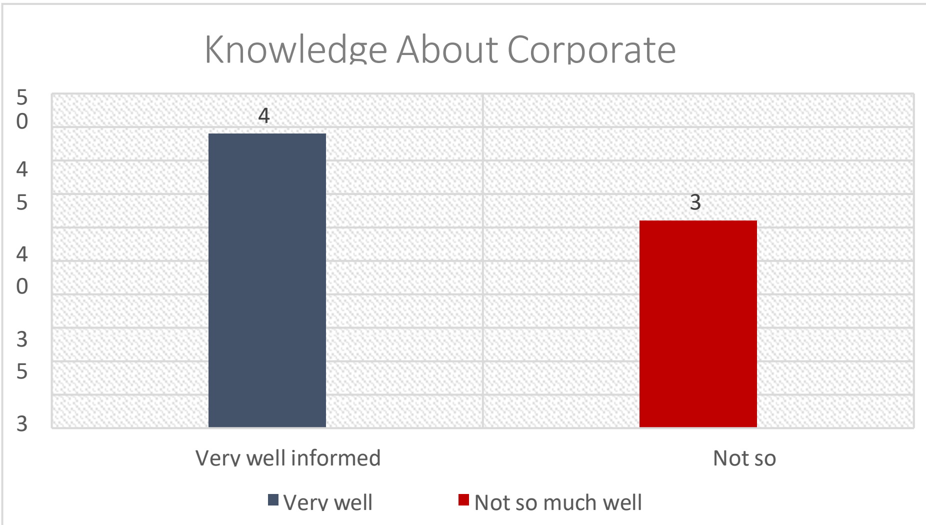
Effect of Board Independence on the Profitability of SMEs

This section of the report the researcher assessed respondent's the level of knowledge in relation to corporate governance and ascertain the effect of corporate governance on the firm's profitability.

How would you Rate your Knowledge of Corporate Governance Issues?

Respondents were questioned as to how well inform they were in relation to corporate governance. This study found that (44/ 75 were very well informed and (31/75). These findings are summarized in the figure below.

Figure 5.4.2: Knowledge about corporate governance

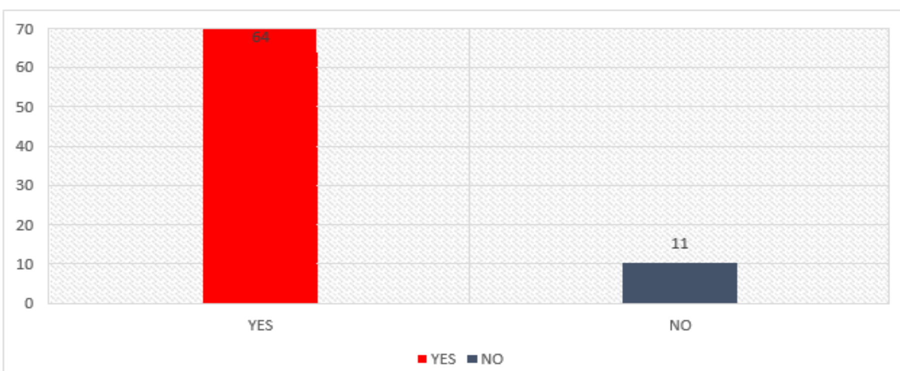


Source: Author Field of Study

There is Efficient use of Company Assets when a Board Exists

Respondents were asked to indicate in their opinion if the company managed its assets efficiently when a board was in place. The findings of this study indicate that (47/75) disagreed and (4/75) strongly disagreed. (12/75) remained neutral, (10/75) agreed and (2/75) strongly agreed. These findings are shown in the figure below.

Figure 5.6.2: Separation of shareholders from management



Source: Author Field of Study

The Impact of Separation of Powers between the Shareholders and Management on Business Performance

What is the Number of Shareholders in the Company and are the Shareholders Also Part of Management?

Respondents were questioned on how many shareholders were part of the company, the study found that (74/75) firms had 2 to 5 shareholders and only 1 firm had more than 5 shareholders. Respondents were also questioned to ascertain whether the shareholders were also part of management in these firms. The findings of this study review that (64/75) respondents indicated that shareholders were also part of management. In other words, the shareholders were also decision makers in these firms. Only (11/75) firms had management of the firms separate from its shareholders. These findings are summarized in the table below.

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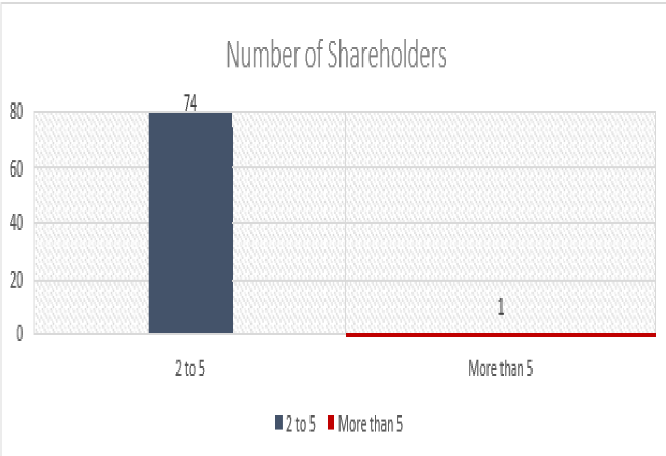

Figure 5.6.1: Number of Shareholders
Source: Author Field of Study

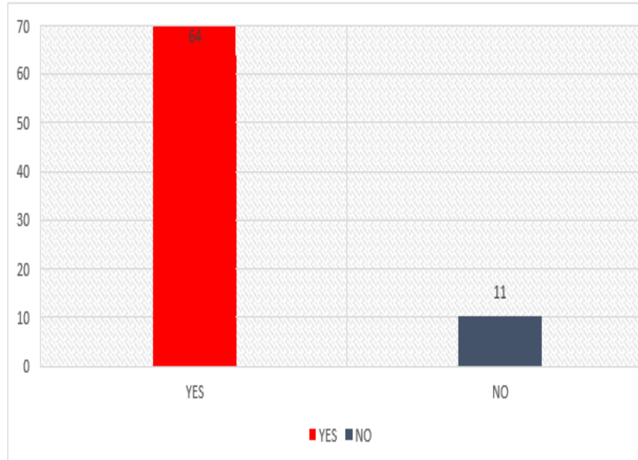

Figure 5.6.2: Separation of shareholders from management
Source: Author Field of Study

Effect of Board Independence on the Profitability of SMEs

The analysis was done using inferential statistics with the help of excel 2016. The main objective of this study was to critically assess and review the effect of corporate governance on the performance of Small and Medium Enterprises (SMEs) in Zambia. However, this analysis model was aimed at assessing the effect of board independence on the profitability of SMEs and evaluating the impact of separation of powers between the shareholders and management on business performance

Chi-square tests and cross tabulations were conducted between availability of financial sources and separated of the Board chairperson from the CEO. It was found that separated of the Board chairperson from the CEO is closely associated with availability of financial sources, the higher the separation the more profitable the firm is likely to be. The result on educational level were found to be statistically significant ($\chi2$ =64.852; $p < 0.00$).

			Is the chairperson of the Board separated from the CEO?		
			Yes	No	Total
Have you sources for finance financial for your firm the last 3 years?	Yes	Count	8.0	9.0	17.0
		Expected Count	6.	8	14.0
	No	Count	8	6	14.0
		Expected Count	3	13	16.0
Total		Count	8	6	14.0
		Expected Count	33.0	42	75.0

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Chi-Square Tests

	Value	df	Asymptotic Significance(2 sided)	Exact Sig.(2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	64.852[a]	4	.000	.000		
Likelihood Ratio	80.567	4	.000	.000		
Fisher-Freeman-Halton Exact Test	70.746			.000		
Linear-by-Linear Association	4.387[b]	1	.036	.041	.020	.005
N of Valid Cases	157					

Assessment of the impact of separation of powers between the shareholders and management on business performance.

Table 5.6.4: ANOVA Statistical Analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.923	8	2.615	13.077	.000[b]
	Residual	6.000	30	.200		
	Total	26.923	38			

a. **Dependent Variable a. constant is the (independent variable): Separation of powers between the shareholders and management.**
b. **Predictors: (Constant).**

Table below the p-value (0.0001<0.05) obtained in this model of study indicate that the model is significant and that independent variables.), affect the business performance.

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.900	1.990		1.960	.059
	Availability of funds	.500	.108	.800	4.629	.000
	operational efficiency	.400	.211	.317	1.893	.068
	Return on earning	1.600	.604	.841	2.650	.013
	Board on profit margins	3.000	.606	1.521	4.954	.000
	Return on Assets	5.900	.941	2.374	6.273	.000
	Number of share holders	1.700	.13	.995	-3.311	.002

a. Constant is the (independent variable): Separation of powers between the shareholders andmanagement.

The regression model indicates that, Availability of funds, operational efficiency, Return on earning, Board profit margins, Return on Assets, Number of share-holders which are performance indicators are associated with Separation of powers between the shareholders and management. This was demonstrated by the statistical p-values (< 0.05) except for operational efficiency and return on earning which was found to be insignificant at p value (0.434>0.05) and the entire model was significant at p-values (0.0001<0.05). Based on the coefficient values it was also determined that these variables had positive correlation with: Separation of powers between the shareholders and management which implies the separation of power between shareholders and management would lead to high availability of funds, high operational efficiency, high return on earning, high board profit margins, Return on Assets, high shareholders numbers and shareholders, the results of the analysis show that conflicts existed in the 8 firms. 2 firms did notexperience conflict between the shareholders and managers of the firm.

Framework to Strengthen Corporate Governance in SME'S?

Item	Strategic framework to strengthen corporate governance inSME'S
Presence of independent Board	The board comprising non-executive directors have responsibility to control and monitor management, thus, helps in reducing agency cost and improves financial reporting quality (Fame and Jensen, 1983). Moreover, independent directors do not seek self-interests and control managerial activities (Williamson, 1988). .
Training and Education	Training is often appropriate, and more intensive in-house support may be required than when working with larger entities. It may notbe sufficient simply to propose the changes to structures or processes needed to improve corporate governance standards.
Stronger Controls	A properly functioning board can help to ensure that performanceand management conduct are both monitored properly in SMEs.
Clearly state obligations of Partners/shareholdersin house hold hardware SMEs	Evaluate and approve amendments to company bylaws orpartnership agreements, including but not limited to business reorganization processes suchas mergers, break-ups, restructuring
Clarity in Communication	There should be clear reporting lines and clarity about how decisions are made and risks controlled, and about other matters that need to be brought to the board's attention (or the attention of committees) for review or approval
Rights and Fair Treatment of Partners/Shareholders	Partners/shareholders in SMEs are to be protected under thecompany's rules of corporate governance, which should ensure that their rights are duly respectedand that their interests are duly protected.
Fringe Benefits	Any incentives for staff need to be supportive of board strategies.
Clear communication of strategies andpolicies	There needs to be clear communication (of strategic goals, expected behavior, etc.) by the board to management and staff. Appropriateinternal controls should be established, related to key risks
Transparency andEffective communication	Boards need to have good visibility of management actions anddecision making, which includes the provision of high-quality information on business performance and risk management.

Source: Questionnaire primary Data

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VII. DISCUSSIONS

The Effect of Board Independence on the Profitability of SMEs

The study found that a majority of the SME’s which were sampled in this research did not have boards in presence. They preferred to manage the affairs of the business on their own. However, amongst those which had board in presence, it was found that separation of the Board chairperson from the CEO is closely associated with availability of financial sources, the higher the separation the more profitable the firm is likely to be Bergh and Baleen (2005) examined the issue of independence as an important factor in ensuring board effectiveness through monitoring and strategic management by directors. Johari, Saleh, Jaffar and Hassan (2008) pointed out that the minimum structure of independent directors under Malaysian corporate governance laws is not sufficient to monitor the organization. They concluded that the composition of outside directors on the board was not related to financial management. Most Malaysian companies have outside directors on their boards at 1/3 or 33%, but this has no impact on financial management. Ararat, Orbay, and Yurtoglu's (2010) study of independence on board Turkish-controlled firms revealed three important findings. Preliminary results indicate that there is no significant effect of board independence and fairness. A study conducted in India found that board independence does not lead to better corporate performance due to lack of oversight by outside directors (Garg, 2007). One of the most important tasks of outside directors is monitoring the company's operations and activities. Companies should therefore appoint external auditors who can perform appropriate audits to monitor governance, internal control and risk management.

The Impact of Separation of Powers between the Shareholders and Management on Business Performance

Despite the various benefits associated, management and shareholders/owners were not separated. Similarly, the benefits of separating ownership and management are numerous. Separation ensures the sustainability of the company through leadership by a team of professionals with the diverse skills needed to run the company effectively. This can include delays in decision-making, reduced flexibility and agility in responding to change, and can occur when there are conflicts of interest or incentives between those running and managing the company. Includes principal-agent issues. Nevertheless, the benefits often outweigh the disadvantages, and most of them can be overcome by putting in place sound governance.

Strategic Framework to Strengthen Corporate Governance in SME’S

The study was also aimed establishing framework which can be used in enhance sustainability of corporate governance in the operations of SME in the long term. In the study, it was determined that the corporate governance framework applied to any business has to be fit for purpose, which includes being appropriate for the size and maturity of the business. The board comprising non-executive directors have responsibility to control and monitor management, thus, helps in reducing agency cost and improves financial reporting quality (Fame and Jensen, 1983). This is so because properly functioning board can be instrumental in ensuring that the SME’s management information is of sufficient quality to be a suitable basis for exercising effective oversight’ for the effective business operations and performance. It may not be sufficient simply to propose the changes to structures or processes needed to improve corporate governance standards. A strong and well-functioning board can help ensure proper monitoring of performance and management behaviour in SMEs. Without strong controls, SMEs face a greater risk that the poor quality of management information makes it more difficult to determine whether an SME is facing bankruptcy than a large company with specialist auditors who serve the board well (Williamson, 1988).

VIII. CONCLUSIONS AND RECOMMENDS

Conclusion

The aim of this study was to examine the effect of corporate governance on the performance of small and medium enterprises (SMEs) in Lusaka’s hardware industry. This study concluded that at a majority of SME’s have not embraced the idea of corporate governance. The study found that a majority of the SME’s did not have boards in presence. They preferred to manage the affairs of the business on their own. However, amongst those which had board in presence, it was found and concluded that separation of the Board chairperson from the CEO is closely associated with availability of financial sources, the higher the separation the more profitable the firm is likely to be. On the impact of separation of powers between the shareholders and management on business performance. The study found that, there was no separation of management and shareholders/ownership despite various benefits which come with this. It was concluded that separation of powers between the shareholders and management which implies the separation of power between shareholders and management lead to high availability of funds, high operational efficiency, high return on earning, high board profit margins, Return on Assets, high shareholders numbers. However, many firm owners have preferred to be their own decision makers as regards to the operations of their business.

The frame work was establishing which suggested that there should be presence of an independent board, training and education, stronger controls, ownership structure, clearly state obligations of partners/shareholders in house hold hardware SMEs, Clarity in Communication, Rights and fair treatment of partners/shareholders, fringe benefits, clear communication of strategies and policies, transparency and effective communication.

Study Recommendations

Based on the findings and engagements with the responses, the researcher suggests conducting a study on enhancing corporate governance in SME's:

- Establishing a governing board consisting non-executive directors who are entrusted with the responsibility of controlling and monitoring management practices. This approach is expected to contribute to reducing agency costs and enhancing the quality of financial reporting.
- Promote training of staff and board members on the significance of corporate governance.
- Establish a robust control board to efficiently manage both internal and external business relations and affairs. This highlights the need for a structured system to effectively govern the operations of the SME's in the hardware industry.

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