

**THE IMPACT OF BOARD DIVERSITY ON CORPORATE GOVERNANCE IN
MEDIUM-SIZED PRIVATE ENTERPRISES IN GAUTENG**

by

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submitted in accordance with the requirements
for the degree of

Magister Technologiae

in the subject of

BUSINESS ADMINISTRATION

at the

UNIVERSITY OF SOUTH AFRICA

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NOVEMBER 2012

ABSTRACT

The South African economic landscape changed for ever after the first democratic election of 1994. The change heralded an era of inclusion, the economic landscape became open to people from all races, whereas before economic power was centralised in the hands of a minority group due to Apartheid legislation.

Exploring the relationship of diversity of board members on the corporate governance of small, micro and medium enterprises (SMME's) in South Africa has become imperative. Understanding the relationship, if any, which exists can aid SMME's in board selection and corporate governance alike.

Data for the study was collected through a self-enumerated questionnaire completed electronically and followed-up by interviews with heads of boards surveyed. Both the questionnaire and the interviews focussed on corporate governance, which included different components of governance such as the general principles of governance followed in the enterprise, the stakeholder focus exerted by the board of directors and the functioning of the board of directors. This resulted in a score for the enterprise which can be expressed as a percentage. This governance indicator was related to questions on the diversity of board members.

The findings were in many cases contradictive when a single variable was observed against the score an enterprise achieved for governance. When taking a more holistic approach and evaluating multiple variables, it became evident that it is rather a combination of variables which displays some relationship with corporate governance.

This study found that board diversity does have a relationship with corporate governance. The magnitude of this relationship could not be ascertained and warrants further research in a wider spectrum of the South African economy and also with a larger group of subjects.

DECLARATION

I, H.B. Kruger, declare that, **The impact of board diversity on corporate governance in medium-sized private enterprises in Gauteng** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.



Hermanus Barend Kruger

Signed at Pretoria

On the 22nd day of November 2012.

DEDICATION

I dedicate this dissertation to my wife Vilet and daughters Vanique and Hermine who put up with many years of study and research.

My father, Toeks Kruger, whose mentorship, carried me through the most desperate of times. It is sad that he could not witness my completion of this endeavour.

Annatjie Kruger, my mother, with her unwavering belief that I would succeed.

ACKNOWLEDGEMENTS

I would like to express my sincere gratitude to those people who made it possible for me to not only complete this dissertation, but assisted me on the road to this point of my academic career.

My lecturer, Prof. Hester Nienaber whose insistence on academic excellence guided me to explore and learn on my own, with her depth of knowledge always available when the path became difficult to follow. I am extremely grateful for the opportunity to have met and worked with her, not only during this research but throughout the qualification.

Prof. Sunette Pienaar, my supervisor, who was always willing to listen, and offer advice.

I am grateful to Mrs. Annelie Green and Mr. Madimetja Mashishi for their tireless efforts to keep my grammar in check and to offer linguistic advice.

I would like to acknowledge Mr. Andries Masenge, Dr. Jairo Arrow, Mrs. Annette Myburgh, Mr. Joe de Beer and Mr. Pali Lehohla for numerous discussions on topics related to the field of research and statistics.

I am indebted to the various Chambers of Commerce and Industry in Gauteng with specific reference to the information staff of the Johannesburg Chamber of Commerce and Industry for their assistance.

I would like to acknowledge my immediate family, none of this would have been possible without their support, and I will never forget the sacrifices made from young and old to assist me in this endeavour.

Finally I would like to acknowledge and thank God the Father and Creator for blessing me with the tenacity and capacity to complete this task.

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CHAPTER 1: BACKGROUND TO THE STUDY

1.1 Introduction

The purpose of this study was to identify if a relationship exists between board diversity and corporate governance in the small, micro and medium enterprise (SMME) sector of the South African economy operating in the Gauteng province.

By identifying if a relationship does exist between board diversity and corporate governance in SMME's, the impact of such a relationship can be evaluated and it could lead to further research and discussions in the field of SMME corporate governance. This is a sector of the economy which has the potential to alleviate unemployment (Davis, 2010; Zuma, 2012) and answer calls for economic freedom (Phosa calls for economic freedom, 2012).

The initial quantitative design of the research was based on a population of 1 389 enterprises operating in the financial and business services sector of the economy in the Gauteng province. This design, however, had to be amended and is discussed later in this Chapter and Chapter 3.

Data were collected via a self-administered questionnaire and followed up with interviews with selected respondents. Data were analysed and results are presented in Chapter 4.

The study concluded that a relationship does exist between board diversity and corporate governance. The impact of this relationship could however not be ascertained due to the limited number of responses received.

1.2 Context of the study

Globalisation has taught us that an enterprise has no master (Agle, B R., Donaldson, T., Freeman, R E., Jensen, M C., Mitchell, R K., Wood, D J., 2008) and that it allows

enterprises to exploit weaknesses in governmental controls as rules and regulations vary from country to country. This makes proper governance in any enterprise even more important. Corporate governance is also no longer purely to ensure growth of the bottom line. The King Report on Corporate Governance (King III, 2009) is explicit about the role that corporate governance should play in an enterprise, not only to the financial well-being of the enterprise but also to ensure effective leadership, sustainability and the achievement of corporate citizenship.

To a large extent, studies around the corporate citizenship dimension of corporate governance have ignored small, micro and medium enterprises (SMME's), as there is a perception that these enterprises do not have the resources necessary to venture into this arena (Nejati & Amran, 2009).

Due to the unique South African demographic landscape, where it is well-known that economic power was centralised in the hands of a minority group due to Apartheid legislation, it is important to explore the impact, if any, that board diversity has on enterprises after the end of this era and the subsequent inclusion of all South Africans in the economic landscape of the country.

In an effort to equalise opportunities, the South African government put legislation in place to address the equalisation of opportunities through the Employment Equity Act (Employment Equity Act 1998) and the Broad-Based Black Economic Empowerment Act (Broad-Based Black Economic Empowerment Act 2003).

Unlike in countries like the United States, New Zealand (Ingley & Van der Walt, 2003) and Australia (Wang & Clift, 2009) where board diversity has become a major concern, South Africa is not faced by inclusion of only minority groups, but rather by both minority and majority groups. In the South African context minority groups include White/European females, Coloured males and females and also Asian males and females. The majority group is composed of Black/African males and females.

If an impact from board diversity on corporate governance can be identified, it might allow for future research to ascertain the type of impact, and may lead to differences in

decision-making concerning board composition and member selection that could affect governance in the enterprise.

The financial and business services sector was chosen as it is currently the largest single contributor to the South African gross domestic product (GDP). The first quarter 2010 GDP indicated a 22.9% contribution from this sector of the economy (Stats SA, 2010). This share of the economy decreased slightly to 20.2% by the second quarter 2012, the sector however contributed the biggest share to the South African economy over the last number of years (Stats SA, 2012).

The study was conducted on medium-sized private enterprises in Gauteng as defined by the Small Business Development Act (Small Business Development Act 1996) but limited to the financial and business sector of the economy. SMME's were surveyed due to the expectation that they might be a source of employment and poverty alleviation in South Africa (Davis, 2010; Ligthelm & Cant, 2003; Ligthelm, 2004; Radebe, 1999).

Medium-sized private enterprises within the SMME sector were targeted due to the fact that they, unlike closed corporations, were likely to have a board of directors. A study by Abor and Biekpe (2007) conducted in Ghana, found the mean board size for SME's to be 3.7 directors (Abor & Biekpe, 2007). This might correlate to what can be found in other developing countries.

Only enterprises registered in Gauteng were surveyed. Gauteng was chosen as approximately 52% of all private companies in the financial and business sector registered in South Africa are registered in Gauteng according to information obtained through Statistics South Africa. This would thus indicate that the said sector forms the major economically active group in medium enterprises within Gauteng.

A quantitative study was done and conducted through the administration of a questionnaire. The questionnaire was based in large measure on the "Governance indicator for small and medium sized enterprises" developed by Yacuzzi (2008) for the measurement of corporate governance in small and medium enterprises in Argentina (Yacuzzi, 2008). The questionnaire was expanded to include dimensions on board diversity as indicated previously.

As only six responses were received, they were used as an exploratory case study as adequate data were not available for a normal quantitative design to indicate causality between board diversity and corporate governance.

Firstly, the unavailability of information on SMME's necessitated the use of unclassified business registers. A population of SMME's from the records of the different Chambers of Commerce in Gauteng was used. This yielded a population of 359 private companies from a total of 3 865 enterprises that indicated their turnover to be less than R30.0 million per annum. Only enterprises that could be classified as SMME's were selected. Although the entire population of 359 enterprises were invited to participate in the study, only nine enterprises accept the invitation.

Secondly, a low response rate coupled with the unavailability of information resulted in a case study approach being chosen as the best option as the limited information received indicated that valuable information could be obtained from the respondents. As the norm for conducting case studies define a number of cases between three and 12 cases, all subjects were contacted to request interviews. Three cases accepted the request for an interview, which placed the study within the expected norm for a case study. A study with better data on company registration and a higher response rate would, however, have been better suited to a quantitative study, which could have proved a causal relationship between board diversity and corporate governance.

1.3 Purpose of the study

The purpose of this study is to identify if a relationship exists between corporate governance in medium-sized private enterprises in the financial and business services sector registered in the Gauteng province of the South African economy and the level of board diversity in these organisations. This was measured through the administration of a questionnaire on corporate governance developed by Yaccuzi (2008), coupled with diversity indicators such as member gender distribution on the board of directors, age of board members, level of qualification of board members, nationality of board members and racial classification of board members.

1.4 Problem investigated

Employing board members of diverse professional backgrounds, gender, age, levels of independence and ethnicity are some of the dimensions implied by the term board diversity (Van der Walt & Ingley, 2003). It is important to note that board diversity does not mean “window dressing” purely for the benefit of compliance or placating stakeholders, but rather appointing persons to the board based on their merit and not their physical attributes like skin colour, gender or disability status.

According to Van Der Walt and Ingley (2003), reasons for appointing diverse boards currently range from a moral obligation towards both workers and stakeholders, access to specific markets (for example, to be able to comply with standards set for government tenders), expectations from society that enterprise reflect the society in which they operate, or purely striving to find the people with the best fit to the enterprise with regard to experience, skills or knowledge to enable the enterprise to achieve its strategic goals.

1.4.1 Main problem

To identify the impact of board diversity on corporate governance in the SMME sector of the South African economy is an imperative as it would allow us to assess how board diversity affects aspects of corporate governance in these enterprises. The aspects of corporate governance include the values related to ethical leadership, sustainability and sustainable development. Identifying the impact, if any, could also stimulate discussion on diversity and expectations from stakeholders in an enterprise. The importance of assessing the situation in SMME's can be found in the propensity of researchers focussing their attention on large enterprises rather than small and medium enterprises.

1.4.1.1 Significance of the study

The study might contribute to the corporate governance landscape of South Africa, specifically for medium-sized private enterprises in the financial and business services sector, as it might lead to a greater understanding of the impact, if any, that board diversity has on corporate governance and sustainability in these enterprises.

If the study identifies that a positive impact can be achieved through board diversity it could change the nature of board selection and also address issues with regard to the inclusion of previously disadvantaged individuals (PDI's) as defined by the Employment Equity Act (Employment Equity Act 1998) to the boardrooms of medium-sized private enterprises.

Proper board selection might result in long-term gains in efficiency and effectiveness, as well as an increased awareness of the social and environmental impact of the enterprise. The result of these gains can be directly related to cost savings and increased production, thereby allowing funds to be released to be used for growth and expansion, further addressing the aim of job-creation and economic growth (Davis, 2010; Ligthelm & Cant, 2003; Ligthelm, 2004; Radebe, 1999).

One possible outcome of this study is that the subject field might gain an understanding of whether South Africa purely follows international trends where no clear business case could be found for board diversity other than for moral and social reasons (Ingley & Van der Walt, 2003), or whether a case can be made for board diversity in South Africa from a perspective of increased governance linked to having diverse boards.

1.4.1.2 Delimitations of the study

Delimitations of the study were the following:

- Research was limited to the financial and business sector of the economy and it might be argued that enterprises in other economic areas have different experiences with regard to board diversity.
- Research was limited to medium-sized private enterprises; therefore it might be argued that it does not apply to all South African businesses.
- Research was limited geographically to Gauteng; therefore it might be argued that different provinces in South Africa might have a different outcome if the same study was to be conducted there.
- Research was limited to respondents who indicated their status as being private companies to the various business chambers in Gauteng, thus excluding businesses not falling within this definition.

1.5 Definition of terms

Small, micro and medium enterprises (SMMEs):

Different classifications are used internationally to define SMME's. In the South African context, an SMME is defined by the Small Business Development Act (Small Business Development Act 1996). This classification is based on the staff compliment of the enterprise and its annual turnover.

Corporate Governance:

“Corporate Governance is defined as the system by which companies are directed and controlled. Sound corporate governance is an important element of sustainable private sector development – not only because it strengthens businesses' ability to attract investment and grow, but also because it makes them more accountable.” (International Finance Corporation, 2012).

Halo effect:

Due to the subjective nature of participation type questions, respondents might answer the questions in a way which they believe reflect a more positive image of their enterprises (Isham, J., Narayan, D., Pritchett, L., 1995).

1.6 Assumptions

It was assumed that:

- Medium-sized private enterprises have functioning boards.
 - The definitions of medium-sized enterprises are based on the Small Business Development Act (Small Business Development Act 1996) which in turn uses turnover and a staff compliment to define an SMME. Many enterprises which fit the definition might not have functioning boards for various reasons; this might also have an impact on the outcome of the survey as some non-responses might be due to the enterprise not having a functioning board.

- The survey questionnaire was completed by the CEO or Chairman of the Board, or by a knowledgeable delegated person on the board.
 - Due to the fact that some questions are based on value judgements by the CEO or Chairman of the Board, completion by the wrong person might generate wrong answers affecting the outcome of the survey.

- An adequate number of enterprises would accept the invitation to participate in the study to gather reliable data.
 - If an adequate response rate could not be achieved a clear picture of the business sector cannot be formed, limited responses might however give an indication on whether further study with regard to governance issues in SMME's are warranted. This study could then be handled as a case study to identify the impact of diversity on corporate governance.

- No pressure was placed on respondents to answer the survey questionnaire in a specific way.
 - Due to the sensitivity of issues surrounding diversity in South Africa, the risk exists that respondents may be instructed by the board to answer the questionnaire to enhance the way in which their enterprise is evaluated or even causing a non-positive evaluation.

- The survey questionnaire would be answered truthfully.
 - Non-truthful answers might create a halo effect (Isham, et al., 1995). This will have a negative impact on the survey results as it might increase the chances of a positive impact due to diversity even when it might not be true.

- The survey questionnaire would be received back in the timeframe specified.
 - Delays in collection will have a negative impact with regard to the timely submission of the research report. It does, however, not affect the quality of the data received.

- The survey questionnaire would be completed in full.
 - If incomplete questionnaires were received back, they would be void as it will cause a scenario where causal relationships between variables cannot be deduced for the specific enterprise, leading to a skewing of the outcome of the survey. Follow-up on questionnaires might be necessary to ensure completeness.

- It was assumed that an adequate response rate would be achieved to allow a quantitative study to be done to ascertain if a causal relationship does exist between the diversity of board members and corporate governance.
 - The response rate achieved was however not adequate, resulting in a change of the study to that of a case study.

1.7 Research design and methodology

The initial research design was based on a quantitative study, as it would be the most appropriate to the problem investigated. The data collection was conducted according to the design described below. However, the low response rate did not allow for the planned statistical analysis. On closer scrutiny, it became clear that the responses yielded valuable information that could be assessed to ascertain if an impact from board diversity on corporate governance could be observed. Subsequently it was decided to apply a case study approach to benefit the information received. The planned methodology is described below with the amended methodology described in Chapter 3.

1.7.1 Research hypothesis

1.7.1.1 Null hypothesis

H_0 : The level of board diversity has no impact on corporate governance in medium-sized private enterprises in the financial and business services sector of the economy registered in Gauteng.

1.7.1.2 Alternative hypothesis

H_A: The level of board diversity has an impact on corporate governance in medium-sized private enterprises in the financial and business services sector of the economy registered in Gauteng.

1.7.2 Research methodology

1.7.2.1 Research Ethics

The research was done on a voluntary basis; all respondents who accepted the invitation to participate in the study gave their consent. All data, whether received electronically and otherwise, were handled as strictly confidential due to the sensitive nature of the information.

The sample questionnaires attached as Appendix B and Appendix C has been redacted by removing names and contact details of the respondent to ensure that no person can be identified by name.

Respondents who participated could stop to participate at any time without any negative consequences.

1.7.2.2 Reliability of the survey

The questionnaire used in the survey was developed for use in the SME sector of Argentina. The questionnaire was developed mainly from literature and was field-tested. Based on the outcome of the field tests the questionnaire was amended to ensure reliability (Yacuzzi, 2008). The questionnaire does not use any open-ended questions so as to limit subjective responses to the questions posed – which increases reliability. The use of this questionnaire in South Africa was deemed relevant due to the fact that South Africa, as Argentina, is classified as a developing country and that the dimensions of corporate governance are accepted globally (Claessens, 2003). Future use of the questionnaire could endorse the reliability of the questionnaire.

1.7.2.3 Validity of the survey

The same questionnaire was administered in the same format for all respondents to further internal validity. Although Claessens (2003) states that the dimensions of corporate governance can be applied to different firms and sectors, the external validity of the questionnaire should be tested with other sectors of the South African economy to reaffirm the external validity of the questionnaire.

1.7.2.4 Generalisation

It would not be safe to assume that results from the survey could be generalised to other sectors of the economy, the intent was to identify if any relationship was observed in the cases studied in the financial and business services sector of the economy in Gauteng which could lead to further research in the field of corporate governance within SMME's.

1.8 Research design

A quantitative research design was chosen initially. As the survey did not yield enough responses to do the necessary statistical analysis, the design was amended as indicated previously and elaborated on in Chapter 3. The details of the initial design are discussed below.

1.8.1 Research population

The population consists of medium-sized private companies registered with the Companies and Intellectual Property Commission (CIPC) in Gauteng, operating in the financial and business services sector of the economy. Based on data obtained from Statistics South Africa, Gauteng based financial and business services registered companies were chosen as the population as they represent approximately 52% of private enterprises in Gauteng. 63% of all financial and business services enterprises are registered in Gauteng.

1.8.2 Research sample

A random probability sample of 560 study units were to be drawn from the population of 1 389 registered medium-sized private companies in the financial and business sector in Gauteng. The sample is limited to 560 units overall as the impact of the standard error becomes negligible where the number of study units are greater than 500 (Welman & Kruger, 2001). Due to unavailability of data the population had to be amended, this is discussed in Chapter 3.

1.8.3 Research period

The study covers the period of the last completed financial year; for instance, if conducted during March 2012, it would focus on the 2011 financial year. The timing of the study is critical to ensure that it causes the least disruption possible to the daily functions of the Chief Executive Officer or the Chairman of the Board who was requested to take part in the study. The month of March was chosen as it would not interfere with start-up operations after December shutdowns, financial year ends or the so-called “tax season”.

1.8.4 Analysis

The data were captured electronically and was to be analysed with Statistical Analysis System (SAS) software. Regression analysis was to be used to determine if any causal relationship does exist between board diversity and the level of corporate governance. The analysis was amended as described in Chapter 3.

1.9 Data collection

Data collection was done through the administration of a self-enumerated questionnaire on the enterprises that accepted the invitation to participate in the survey.

Communication about the survey included both pre- and post-survey communications. Electronic communication methods were used for all communications. The methods used included both email and fax communications. Pre-survey communication was used to ascertain the sample unit’s willingness to participate in the survey. This

communication also included timeframes for the survey. Post-survey communication was done to show appreciation to all sample units and individual respondents.

The Chief Executive Officer (CEO) or the Chairman of the Board was invited to complete the questionnaire as CEO duality has been noted in SMME's where the CEO might also act as Chairman of the Board (Abor & Biekpe, 2007).

Collection of the completed questionnaires was through email, scanned questionnaires and also electronically completed questionnaires in MS Word format. The option for fax or hard copy postal returns was available. Follow-up communication with sample units and/or individual respondents was necessary to achieve an adequate response rate. This communication was telephonic and via email.

1.9.1 Motivation for the design

The main reason for using a quantitative design was that this design lends itself to proving causality between board diversity and corporate governance.

The expectations were that, by using this design, statistical results could be achieved which could be discussed and potentially lead to further research. Using random sampling would also lead to an unbiased result.

1.9.2 Research instrument

The collection instrument used was in the form of a self-enumerated questionnaire.

The main questionnaire was based on the "Governance indicator for small and medium-sized enterprises" developed by Yacuzzi (2008). The questionnaire is attached as Appendix B.

Diversity questions relating to age, gender, racial classification and formal qualifications were included to gauge the level of board diversity within the enterprise. The corporate governance part of the questionnaire was broken into sections relating to the general principles of governance followed, stakeholder focus and board routine. The questions relating to corporate governance consisted of closed-ended questions based on a five

point scale developed mainly from stakeholder theory and field tests. Some “Yes/No” answers were also included; these are used in both the sections for “General governance principles” and “Board Routine”

Point allocation on the scale utilises both straight line increments and widening increments in certain areas. A total possible score of 1 000 could be obtained.

1.10 Preliminary literature review

1.10.1 Introduction

This preliminary literature review served to identify any previous studies that aimed to identify the impact or the role of diversity of board members in SMME’s on corporate governance in the enterprise. The search for previous studies conducted included studies both locally and internationally. It further aimed to clarify the main concepts implied in the title of the study namely; Diversity of board members in the SMME context, corporate governance, stakeholder theory and small, micro and medium enterprises. Clarification of these main concepts was imperative as the main driving force in the development of the questionnaire used was from the perspective of stakeholder theory (Yacuzzi, 2008).

Clarification on the SMME concept proved necessary as classifications of small and medium enterprises can vary substantially from country to country. The term corporate governance also needed investigation as corporate governance is increasingly receiving wider attention.

A second purpose of the review was to ascertain if any tools exist to measure corporate governance and thirdly to identify dimensions of diversity of board members.

1.10.2 Previous studies and research

Although studies were found that centred around board diversity and achieving board diversity, as well as various studies on corporate governance; no studies were found that specifically intended to identify if a causal relationship exist between board diversity

and corporate governance in the SMME sector. As corporate social responsibility and corporate sustainability features strongly in the corporate governance arena, these types of studies were also taken into account.

A study conducted by Wang and Clift (2009) set out to identify whether a business case could be made for board diversity (Wang & Clift, 2009).

Van der Walt and Ingley (2003), during their research, found that literature supports the concept of board diversity. As previously mentioned, one of the major concerns that was noted in a study by Isham (1994) was the possibility of the Halo effect on responses.

Studies on ethnicity or diversity in organisations centre mainly on inclusion of minority groups (Kenny & Briner, 2010), which is in stark contrast to the South African situation as previously described.

1.10.3 Related themes

1.10.3.1 Board diversity

Employing board members of diverse professional backgrounds, gender, age, levels of independence and ethnicity are some of the dimensions implied by the term 'board diversity' (Ingley & Van der Walt, 2003). The board of an enterprise is further described as a "pool of social capital" (ibid.). This, by implication, means that the board can also be seen as an intangible asset to the enterprise, consequently implying that it adds value to the enterprise.

1.10.3.2 Corporate governance

The King III report on corporate governance (King III, 2009) is very clear on what is expected from South African enterprises with regard to corporate governance. In South Africa, like in many European countries, corporate governance is applied through a code of principles and practises on a "comply or explain" basis.

This is in contrast to the United States scenario where governance is statutory through the Sarbanes-Oxley Act of 2002 and has serious punitive measures for non-compliance

with the Act. This does not, however, mean that corporate governance issues are outside the law in South Africa; good governance is always aligned with the law and cannot be unchained from the law.

This is evident in the new Companies Act (Companies Act 2008) where various recommendations from the previous King I and King II reports have been incorporated into the new Act. The areas receiving the most attention are that of the duties, conduct and liabilities of directors.

1.10.3.3 Stakeholder theory

As stakeholder theory played a pivotal role in the selection of elements for the tool proposed by Yacuzzi (2008) to measure governance in SMME's, it is imperative that this theory be researched for insight into the tool.

Agle et al. (2008) postulates that stakeholder theory might be the next evolutionary step in business management development. Current work on the stakeholder theory largely centres on major corporations. A study of 100 companies from the Fortune 500 list showed that 64% embraced management approaches that aim to "maximise the well-being of all stakeholders" (Agle, et al., 2008).

1.10.3.4 Small, micro and medium enterprises

In an international context, small and medium enterprises (SME's) are seen as the backbone of economic growth in countries. Small, micro and medium enterprises contribute 80% of global economic growth (Singh, R. K., Garg, S. K. & Deshmukh, S., 2010).

In China, which is seen as the world's fastest growing economy, 98.9% of all enterprises are SME's. In 2004 in excess of 99% of employers in the United States were classified as small businesses (Ligthelm, 2004). SME's or as they are better known in the South African context, SMME's, due to the inclusion of "micro" businesses, are difficult to align between countries as classification of SMME's vary.

1.10.3.5 Research tools available

Yacuzzi (2008) from the Universidad del CEMA (Argentina) proposed a tool to measure governance in SMME's (Yacuzzi, 2008). This tool was seen as relevant to South Africa as Argentina is described as a developing country, as is South Africa, by the International Monetary Fund (IMF). The tool consists of a set of questions which were mainly gathered from literature. Field-testing of this questionnaire in Argentina led to some questions being dropped from the questionnaire while others were added. Stakeholder theory was used in the selection of elements for the tool.

1.10.4 Conclusion

The preliminary literature review did not yield any studies locally or internationally which fits perfectly or is aimed at ascertaining if any causal relationship exists between board diversity and corporate governance, as this study initially set out to do.

Corporate governance as a concept has been studied extensively, both in large and small enterprises. Corporate social responsibility or corporate citizenship has also been studied, but tends to focus on so-called "big business".

Board diversity has also been studied with the interesting conclusion that no clear business case could be made for board diversity from a "bottom line" perspective (Wang & Clift, 2009). Enterprises today can, however, not purely focus on the bottom line alone as pressure is increasing from stakeholders and regulatory authorities for transparent and accountable governance in all enterprises.

Customer expectations for enterprises to engage in sustainable business practises also have a major impact on the governance landscape with little reference to the bottom line.

Studies on board diversity also tend to focus on "big business", which means that SMME's have largely been ignored in this arena. As SMME's account for a vast number of the enterprises operating worldwide, it is imperative that this type of study be conducted on medium-sized enterprises.

1.11 Summary

Although the study could have added immediate benefit if a causal relationship could have been proven between board diversity and corporate governance, the value of an exploratory study should not be underestimated. The SMME sector of South Africa and also worldwide seems to be under researched, and exploring diversity aspects of the boards of SMME's can prove to be valuable as it might lead to further studies in the field and a greater understanding of the problems being faced by SMME's in the South African context.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This literature review investigated the themes identified in Chapter 1 and also identified further themes which warranted review.

The review focussed on identifying any influence between board diversity and corporate governance in previous research. It further clarified selected aspects of board diversity and corporate governance. Theories reviewed through literature included stakeholder theory, generation theory, agency theory and stewardship theory. SMME's and their importance in the economy locally and internationally coupled with their failure was reviewed.

Research on board diversity as a topic, although widely researched, seems to focus primarily on larger businesses with SMME's being largely ignored.

2.2 Definition of topic

The main topic of the literature research concerned itself with identifying whether any influence exists between board diversity and corporate governance within the context of South African SMME's.

The diversity aspect of the topic is an important part of the economic landscape in post-apartheid South Africa where phrases like "economic freedom" are voiced from labour unions and political figures alike. These calls from the likes of Julius Malema, the then leader of the African National Congress Youth League, Zwelinzima Vavi, the General Secretary of the Congress of South African Trade Unions and Matthews Phosa, Treasurer-General of the African National Congress are often the focus of news reports (ANCYL march – Day 2, 2011; Phosa calls for economic freedom, 2012; Vavi, 2012). This, coupled with repeated calls from the South African government for employment creation and alleviation of poverty (ADCORP, 2012; Davis, 2010; Zuma, 2012) aimed specifically at small business vis-à-vis SMME's, necessitates research into SMME's, their inner workings and governance issues.

Influencing factors, such as the failure of small businesses (ADCORP, 2012), also have a big impact on the overall picture of employment creation in the South African context. In addition to these, supposed failures of associations like Business Unity South Africa (BUSA) which aimed to advance the growth of so-called “Black businesses” (BUSA extends hand to new black body, 2012), and the resulting creation of the Black Business Forum during 2012, also plays an important part in the economic landscape in which South African SMME’s operate and in which employment needs to be created through entrepreneurship.

2.3 Previous studies and research

As previously mentioned, studies that were centred on board diversity and achieving board diversity, as well as various studies on corporate governance were found. However, no studies that specifically intended to identify if a causal relationship existed between board diversity and corporate governance in the SMME sector in South Africa were found. As corporate social responsibility and corporate sustainability features strongly in the corporate governance arena, studies on these issues were also taken into account.

A study by Wang and Clift (2009) set out to identify whether a business case could be made for board diversity (Wang & Clift, 2009). This study only focussed on the top 500 Australian firms, thus ignoring SMME content and context as first world countries often have different historical issues with regard to job creation compared to third world countries. The study found that board diversity had no significant impact on enterprise financial performance. The study only focussed on the financial performance part of corporate governance, therefore only answering part of the question.

In their research Van der Walt and Ingley (2003) found that literature supports the concept of board diversity (Van der Walt & Ingley, 2003). It was clear that from a social and moral perspective diversity would enhance corporate governance. According to their research, however, the evidence that board diversity has a positive impact on corporate governance was less convincing; the study however did not focus specifically on SMME’s.

As previously mentioned, one of the major concerns that were noted in a study by Isham et al. (1995) was the possibility of the Halo effect on responses; which would suggest that due to the subjective nature of participation type questions, respondents might answer the questions in a way which they believe reflect a more positive image of their enterprises (Isham, et al., 1995). A similar effect might occur with regard to questions on diversity and governance in the South African context.

Kenny and Briner (2010) found that studies on ethnicity or diversity in organisations focussed mainly on inclusion of minority groups (Kenny & Briner, 2010) which is in stark contrast to the South African situation as previously described, where in large majority groups of the workforce and minority groups like white females would need to be studied.

The studies described were mainly conducted in Europe, Australia and America. An interesting note is that Kenny and Briner (2010) states that the British workplace is under-researched where the experiences of minority groups are concerned.

2.4 Related themes

Various themes related to the impact of board diversity on corporate governance were realised during the literature review process. These themes are a clear indication of the reach of corporate governance in SMME's. The related themes most pertinent to the study were researched and are discussed below. These themes include board diversity, corporate governance, stakeholder, generation, stewardship and agency theory, SMME's and SMME failure.

2.4.1 Board diversity

Van Der Walt and Ingley (2003) identified some dimension that are implied by the term diversity, they include but are not limited to employing board members of diverse professional backgrounds, gender, age, levels of independence and ethnicity (Van der Walt & Ingley, 2003). They further describe the board of an enterprise as a "pool of

social capital". This, by implication, means that the board can also be seen as an intangible asset to the enterprise, an asset which should add value to the enterprise.

It is important to note that board diversity does not mean "window dressing" purely for the benefit of compliance or placating stakeholders, but rather appointing persons to the board based on their merit and not their physical attributes like skin colour, gender or disability status.

Reasons for appointing diverse boards can range from a moral obligation to both workers and stakeholders, access to specific markets e.g. be able to comply with standards set for government tenders, expectations from society that enterprises reflect the society in which they operate, or purely striving to find the people with the best fit with regard to experience, skills or knowledge to enable the enterprise to achieve its strategic goals (Van der Walt & Ingley, 2003).

An expectation exists that diversity might alleviate insular decision-making on the board due to the wide spectrum of experience and expertise that a diverse board can offer an enterprise (Young & Thyl, 2008). Enterprises are increasingly being put under pressure by stakeholders to appoint board members with diverse ethnic backgrounds, expertise and gender for this reason.

Board members have certain attributes which can be classified as either demographic or functional attributes with regard to diversity (Ingley & Van der Walt, 2003). The first relating to physical attributes which include, but are not limited to, race, gender, disability and age. Functional attributes focus on qualifications, experience, values, knowledge and skills. By focusing solely on the demographic attributes, the enterprise might be able to build a diverse board which might look good to stakeholders, but would however not guarantee that the board was more effective.

2.4.2 Corporate governance

As mentioned in Chapter 1, the King III report on corporate governance is very clear on what is expected from South African enterprises with regard to corporate governance. It

is, however, not law and is applied as in many European countries – through a code of principles and practises on a ‘comply or explain’ basis (King III, 2009).

Some recommendations from the previous King reports have, however, been enacted in the new Companies Act (Companies Act 2008) which further displays the importance of proper corporate governance to the South African government and business stakeholders. This does not however mean that corporate governance issues described in King III are outside the law in South Africa. Good governance is always aligned with the law and cannot be unchained from the law. The new Companies Act (Companies Act 2008) focuses specifically on the duties, conduct and liabilities of directors in an enterprise as it was noted in King I and II.

The South African approach is in contrast to the United States scenario where governance is statutory through the Sarbanes-Oxley Act of 2002. The Act prescribes serious punitive measures for non-compliance. The South African approach is similar to approaches observed in many European countries.

The philosophy around which the King III report revolves is leadership, sustainability and corporate citizenship. The report stipulates that governance in essence concerns itself with effective leadership which is characterised by ethical values, accountability, responsibility and more. Sustainability is highlighted as a moral and economic imperative for modern times, and the complexity of the connections between business, nature and society is highlighted (King III, 2009).

The corporate citizen concept, as discussed in the report, identifies the enterprise as a person, with the implication that the enterprise will also fall under the constitution of the country; gaining the same rights as a natural person, but also the responsibilities of a natural person (King III, 2009).

Corporate citizenship and corporate social responsibility are also used interchangeably by many researchers. Nejati and Amran (2009) indicate that social responsibility or corporate citizenship is expected in modern business, irrespective of the size of the enterprise (Nejati & Amran, 2009). Therefore being a “good corporate citizen” would imply that the enterprise should not only protect the natural environment, but also invest

in the overall well-being of the society and economy in which they operate (King III, 2009).

In most countries, SMME's do not fully comply with corporate governance codes (Abor & Adjasi, 2007). In South Africa, SMME's might find it difficult to comply with best practice contained in the King III report due to financial constraints and difficulty in identifying return on investment of corporate social responsibility expenses.

2.4.3 Stakeholder theory

As stakeholder theory played a pivotal part in the selection of elements for the tool proposed by Yacuzzi (2008) to measure governance in SMME's, it is imperative that it be researched for insight into the tool.

Agle et al. (2008) postulates that stakeholder theory might be the next evolutionary step in business management development. Work on the development of this largely centres round major corporations. A study of 100 companies from the Fortune 500 list showed that 64% embraced management approaches that aim to "maximise the well-being of all stakeholders" (Agle, et al., 2008). This would imply that management approaches are not only concerned with the bottom line but takes the society in which they work, as well as their stakeholders and shareholders into account during decision-making.

Stakeholder theory primarily focuses on community, opportunities, less harmful practises, human rights and dignity. Corporate social responsibility came into being as a way for enterprises to address issues aimed at not harming stakeholders. Employing such measures can result in a business being seen as a "good corporate citizen" (Agle, et al., 2008).

Globalisation makes it more important that enterprises are held accountable for their actions, as the free market system without government interventions is prone to ignore societal goals and purely focus on wealth creation or the "bottom line". Although stakeholder theory and corporate social responsibility are not the ultimate answers to societal problems, it has the ability to highlight the need for controls in the business environment (Agle, et al., 2008). In highlighting the need for these controls, the

framework can be enhanced to ensure proper corporate governance practises in the market.

Some of the risks highlighted by Jensen (2002) are the lack of controls embedded in stakeholder theory. The theory assumes that managers will do the right thing (Jensen, 2002). According to Jensen (2002), this allows us to ask: "What is the right thing?" There is no clear answer as people differ and so do their values. It also implies that managers automatically know what is best for society, and in this regard stakeholder theory might actually create discourse in the enterprise (Agle, et al., 2008), which in turn could be useful to align thinking and a definition internal to the enterprise.

2.4.4 Small, micro and medium enterprises

As described previously the definition of SMME's may vary from country to country. According to the Small Business Development Act (Small Business Development Act 1996) South African businesses with a total staff compliment of less than 200 employees are deemed as SMME's. This classification is further expanded to identify SMME's by turnover specific to certain industries using the Standard Industrial Classification (SIC) as developed by Statistics South Africa (Stats SA).

Affirmative action as implemented through the Employment Equity Act (Employment Equity Act 1998) has had a profound impact on SMME's in South Africa by bringing experience, skills and viewpoints to SMME's which were frequently ignored previously (Visagie, 1999).

The need for sustainable job creation is one of the responsibilities that weigh heavily on SMME's. This was reiterated by the South African Minister for Trade and Industry, Minister Rob Davis, as recently as 2010 during the debate on the 2010 State of the Nation address by President J Zuma (Davis, 2010). In the February 2012 ADCORP unemployment index, it was indicated that according to the South African Minister of Finance, Pravin Gordhan, 68% of all South African workers were employed by SMME's with staff compliments of less than 50. SMME's with a staff compliment of less than five employed 43% of these workers (ADCORP, 2012).

Australian studies have shown that newly created SMME's create fewer job opportunities than established SMME's (Durst & Gueldenberg, 2010). It is therefore important not only to foster new enterprise, but also to ensure the long-term sustainability of established enterprises to continue to stimulate adequate job creation in South Africa. Furthermore, although SMME's are generally labour intensive, and therefore a perfect creator of employment, the sector also suffers a very high level of business mortality (ADCORP, 2012; Ligthelm & Cant, 2003). This contributes to the high level of unemployment in South Africa. There is however no indication what role corporate governance or the lack thereof plays in the high mortality levels of SMME's in the South African economy.

Kusyk and Lozano (2007) describe the SMME sector as "protean", being able to adapt to their respective environments which includes different industries and cultural contexts in which they operate. The source of this adaptive ability is found in variations of size, values, access to resources and different levels of stakeholder engagement. Due to this flexibility, changes in the environment are more readily accepted and absorbed by the enterprise (Kusyk & Lozano, 2007).

This risk aversion might in all likelihood also affect the way in which SMME's regard corporate social responsibility programmes. Corporate social responsibility is, however, viewed from different perspectives by different people and enterprises apply these views differently to suit their own goals.

Generally, corporate social responsibility can be described as the responsibility of enterprise towards society and the natural environment, responsibility for the behaviour of other enterprises with which they are in business, and management of its relationship with the wider society.

King III clearly pointed out that sustainability is the most important source of opportunities and risks for any enterprise (King III, 2009). It further points out that nature, business and society are symbiotic and also that these relationships are extremely complex. It is therefore clear that corporate social responsibility and corporate governance cannot be disconnected from one another – even if it was to ensure the sustainability of the enterprise.

2.4.5 Generation theory

Although the age of board members might not normally be seen as an important diversity trait compared to ethnicity, gender or background, it is a factor which affects decision-making, staff retention, motivation and even recruitment.

Walker (2006) in his research found contradicting evidence between any causal relationship between the age of an entrepreneur in a small business and organisational outcome (Walker 2006). Research conducted by The Founders Institute, however, concluded that entrepreneurial success seem to be best up to the age of 40, thereafter it has little to no consequence. It would seem that “life experience” has a positive impact on entrepreneurship. At a higher age, exposure to complex life decisions and different scenarios with co-workers coupled with project management expertise inevitably leads to better decision-making (Joseph, 2012).

In the South African context this might be very different due to our diverse community with different backgrounds. No studies could be found specific to age of board members in SMME’s in South Africa. It is however clear that for government to achieve its goal of creating employment through SMME’s, older entrepreneurs, should receive specific focus with regards to exploiting new ideas and starting new businesses.

2.4.6 SMME failure

The ADCORP employment index of 2012, highlighted interesting statistics around the number of small business failures in South Africa. According to the ADCORP employment index press release, the ten year period from 2001 to 2011 saw circa two million small businesses in South Africa, this remained relatively constant over the period. An increase to 2.4 million small businesses was noticed during the economic boom of the mid 2000’s. The period from 2006 to 2011 recorded a contraction of the number of businesses, with a total decline of 440 000 businesses over the period. This constitutes nearly 100 000 small businesses closing a year for the last five years (ADCORP, 2012).

According to the Statistics South Africa statistical release on liquidations and insolvencies of March 2012 displayed in Table 2.1 below, the number of liquidations compared year-on-year dropped by 39.4%. This was due to a decrease of 48.2% in voluntary liquidations when compared year-on-year for the first quarter of 2012 and 2011. One of the best performers was the business and financial services sectors with 42 fewer liquidations compared year-on-year. The financial and business services sector of the economy recorded 47 compulsory and 183 voluntary liquidations for the first quarter of 2012. Of these, 120 were companies and 110 close corporations (Stats SA, 2012).

Table 2.1 Total liquidations according to industry (number)

Industry	January - March 2012			March 2011			February 2012			March 2012		
	C	V	Total	C	V	Total	C	V	Total	C	V	Total
1.Agriculture, hunting, forestry and fishing	3	7	10	0	2	2	1	3	4	1	2	3
2.Mining and quarrying	1	2	3	0	0	0	0	0	0	0	1	1
3.Manufacturing	8	17	25	0	19	19	3	10	13	0	5	5
4.Electricity, gas and water	1	0	1	0	2	2	0	0	0	0	0	0
5.Construction	7	22	29	0	24	24	2	13	15	2	5	7
6.Wholesale and retail trade, catering and accommodation	19	33	102	2	95	97	11	39	50	4	26	30
7.Transport, storage, communication	22	72	94	0	17	17	0	4	4	8	31	39
8.Financing, insurance, real estate, business services	47	183	230	4	135	139	10	74	84	16	81	97
9.Community, social, personal services	17	101	118	6	44	50	0	30	30	6	24	30
Total number of liquidations	125	487	612	12	338	350	27	173	200	37	175	212

(C= Compulsory liquidations, V= Voluntary liquidations)

Source: Statistics South Africa (Stats SA, 2012).

Unfortunately, these figures do not specify liquidations of SMME's as the classification "company" could include rather large enterprises not qualifying as SMME's. Although liquidations are showing a downward trend, the number of liquidations is still a matter of grave concern. Taking into account that the typical small business employ 12 staff members excluding the owner (ADCORP, 2012), it would follow that every 100 liquidations, voluntary or compulsory, would cost at least 1 200 employment opportunities.

2.4.7 Agency theory

Mitnick (2008) states that, using agency theory, we might be able to explain various relationships. These include legislator and constituent, director and shareholder and many others (Mitnick, 2008). For the purposes of this study and in the context of

corporate governance, the interaction between the enterprise and the legislator; in this case the King III recommendations on a comply or explain basis, South African law through the Employment Equity Act (Employment Equity Act 1998) and the Broad-Based Black Economic Empowerment Act (Broad-Based Black Economic Empowerment Act 2003) become relevant.

The concept of “corporate citizenship” and sustainable development enshrined in the King III report on corporate governance can also be linked to the director-shareholder relationship, as focussing purely on the bottom line is not enough in modern-day business practices (King III, 2009).

Miles (2012), states that the agency theory defines two distinct role players. These are the principal and the agent (Miles, 2012). The principal in the context of this study is likely to be the shareholders of the enterprise with the agent being the directors or members of the board. One of the concerns noted by Miles (2012) is that it is not always possible for the principal in the agency relationship to ensure that the agent will act with the best interest of the principal at heart. This so-called agency problem might however be alleviated by agent equity ownership (Miles, 2012). In the SMME sector this might need further investigation to ascertain the ownership status of board members.

The approach of ownership was also voiced by Fabozzi (2008) with regards to the agency problem. He mentioned that in large corporations managers might even fight mergers or acquisitions based on the fact that they might lose their employment, thereby putting their own self-interest above that of the owners or shareholders (Fabozzi, 2008). This might also be alleviated through ownership by managers. The literature however focuses mainly on large corporations with no mention of SMME's.

2.4.8 Stewardship theory

Rafiee and Sarabdeen (2012) state that stewardship theory in contrast to the agency theory postulates that managers have an intrinsic desire to do the right things by the enterprise. This desire is driven by the desire for achievement and doing what will be best for the enterprise (Rafiee & Sarabdeen, 2012).

The recent worldwide financial crisis has put the focus on corporate governance, or at least it, focused our attention on the lack of corporate governance in enterprises (Rafiee & Sarabdeen, 2012). Corporate governance implies not only a financial focus but a further focus towards shareholders and also the wider society in which the enterprise operates (King III, 2009).

As stated above, stewardship theory relies on the “manager” doing the right thing. Chatterjee and Harrison (2006), however, questions whether managers can be relied upon to sacrifice their own self-interest when they need to act in the best interest of the firm’s stakeholders. When a scenario where managers of a firm serve their own interest above that of the firm and thus by implication that of the stakeholders exists, it creates the so-called agency problem (Chatterjee & Harrison, 2006).

As indicated in Section 2.4.7 a possible solution to this agency problem might be found in ownership or shareholding in the firm. This creates a scenario where the relationship between self-interest and shareholder interest becomes symbiotic in nature. Another agency problem noted by Chatterjee and Harrison (2006) that might be created from this scenario is ‘CEO duality’. This would mean that the CEO of the enterprise will also act as the Chairman of the board of directors, a scenario which could potentially lead to CEOs exercising their powers in a way that benefit themselves at the cost of the larger enterprise and management.

2.5 Research question

The purpose of this study is to identify if any relationship exists between board diversity and corporate governance in medium-sized enterprises operating in the financial and business services sector of the South African economy.

No such studies have been conducted in South Africa specifically intended to answer this question. As far as creating employment is concerned, SMME’s are an important part of the South African and international landscape. SMME’s are thus involved as far as creating employment resulting in ‘economic freedom’, a catch phrase often called for by South African political figures.

2.6 Existing tools and indicators to measure corporate governance in SMME's

As described in Chapter 1, Yacuzzi (2008) proposed a tool to measure governance in SMME's (Yacuzzi, 2008). The questionnaire consists of questions which were mainly gathered from literature. Field testing of this questionnaire led to some questions being dropped from the questionnaire while others were added. Stakeholder theory was used in the selection of elements for the tool.

A five point scale and 'Yes/No' questions are used. Point allocation on the scale uses both straight-line increments and widening increments in certain areas as Yacuzzi (2008) felt that small efforts in a positive direction has a big practical impact and should be weighted as such. A possible score of 1 000 points can be obtained to gauge where an enterprise stands with regard to corporate governance.

The questionnaire can generally be used to study governance in SMME's in South Africa but could be tailored to local scenarios. Linking such a tailored tool to questions around board composition should allow one to ascertain if a link, if any, exists between board diversity and corporate governance.

Two major risks are highlighted by Yacuzzi (2008) in the use of the questionnaire. Firstly, it might be difficult for a CEO or Chairman of the Board to complete due to the length of the questionnaire and, secondly, the field of study is prone to the halo effect which was discussed previously (Yacuzzi, 2008).

2.7 Conclusion of literature review

The literature review did not yield any studies locally or internationally which fits perfectly or is aimed at ascertaining if any causal relationship exists between board diversity and corporate governance, as this study set out to do.

Corporate governance as a concept has been studied extensively, both in large and small enterprises. Corporate social responsibility or corporate citizenship has also been studied, but tends to focus on "big business".

Board diversity has also been studied with an interesting conclusion that no clear business case could be made for board diversity from a “bottom line” perspective. Enterprises today can however not purely focus on the bottom line alone as pressure is increasing from stakeholders and regulatory authorities for transparent and accountable governance in all enterprises.

Expectations from consumers for enterprises to engage in sustainable business practices also have a major impact on the governance landscape with little reference to the effect on the bottom line.

Studies on board diversity also tend to focus on “big business”, which means that SMME’s have largely been ignored in this arena. As SMME’s account for a vast number of enterprises operating worldwide, it is imperative that this type of study be conducted on small and medium-sized enterprises.

Some findings pointed to the fact that neither gains nor losses for shareholders could be attributed to increased board diversity.

The number of SMME’s stagnated in South Africa over the past five years. If taken into consideration the circa 440 000 enterprises lost from this sector, it could possibly be equated to approximately five million job opportunities lost. Data on reasons for SMME failure are not easily accessible. In general SMME information is difficult to find and official publications do not separate SMME’s from their figures on liquidations and insolvencies.

2.8 Research hypothesis

H₀: The level of board diversity has no relationship with corporate governance in medium-sized private enterprises in the financial and business services sectors of the economy registered in Gauteng.

H_A: The level of board diversity has a relationship with corporate governance in medium-sized private enterprises in the financial and business services sectors of the economy registered in Gauteng.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research methodology followed. As previously mentioned, the unavailability of data on SMME's coupled with the low response rate necessitated the study to be conducted as a case study on the enterprises that accepted the invitation to participate in the survey. The research methodology described below details the amended approach as to complete the study on a case study methodology.

During follow-up interviews with some of the respondents it became clear that although they were classified as supplying business services, this might not be the primary source of income for the specific respondent. This does highlight the fact that classification of SMME's with regard to their primary source of income should be further investigated as to aid future researchers in obtaining relevant classification data. This coupled with the unavailability of official data on classified businesses might be one of the reasons leading to the SMME sector being seemingly under researched.

In this chapter the interpretivist paradigm chosen is discussed, followed by the research design. The cases and the collection instrument are also described. Appendix A and Appendix B contains the invitation letter to respondents and the survey questionnaire, respectively. Appendix C contains a sample of the standardised open-ended questionnaire used during the follow-up interviews. Both questionnaires were redacted for confidentiality of the respondents.

3.2 Research paradigm

The research paradigm found best suited to address the research question described in Chapter 2 was an interpretivist paradigm for the purposes of exploring if a relationship does exist between board diversity and corporate governance.

The study was conducted from a viewpoint of social constructivism. This viewpoint was dictated by the need of understanding the environment in which SMME's operate in the South African context. Creswell (2009) captures this elegantly by stating "individuals seek understanding of the world in which they live and work" (Creswell, 2009). By and large, the experience of the researcher while working in a large organisation during the transition period in South Africa influenced the choice of paradigm. This need to understand the world in which they operate was also voiced by the study units interviewed.

3.3 Research design

The case study research design chosen for this study entailed a mixed method approach as compared to a singular quantitative or qualitative approach. The initial collection of data was through the administration of a self-administered closed-ended questionnaire. This was augmented by interviews conducted on selected study units using a standardised open-ended interview. This approach could thus draw on the strengths of both a quantitative approach and a qualitative approach (Creswell, 2009). The quantitative approach aimed at finding the current level of corporate governance in the SMME studied and also the level of board diversity within the specific enterprise. The qualitative approach aimed at exploring the "why" and "how" dimensions of the score of corporate governance obtained by the enterprise. According to Cooper and Schindler (2008) the qualitative method of research is ideal for ascertaining the "why" and "how" dimensions in research (Cooper & Schindler, 2008).

A sequential mixed method strategy was followed. The outcome of the data collected quantitatively informed the selection of study units to be interviewed for the collection of qualitative data (Creswell, 2009). This allowed the further exploration of the results obtained by the specific study units based on the quantitative data obtained.

A low response rate was achieved during the collection of quantitative data. The low response rate might be due to a number of factors. Couper and Groves (1996) conducted studies on mainly household-type non-responses but mentioned that their findings might be applicable to all types of surveys (Couper & Groves, 1996).

Two pitfalls of the survey method may be found in the use of a self-administered questionnaire, as mentioned by Couper and Groves (1996), some respondents may have preferred other methods of collection – such as interview, face-to-face or telephone. The fact that a specific person in the enterprise was targeted (in this case, the Chief Executive Officer or the Chairman of the Board) may result in non-response due to the fact that not all persons in the organisation had the ability to complete the questionnaire (Couper & Groves, 1996). Likewise, some respondents declined the invitation citing time constraints and availability.

The data collected supplied six cases. Although all six cases were approached for follow-up interviews only three accepted. The three acceptances were also the three cases that fared the best with regards to a score for governance obtained via the administered questionnaire. This score obtained is discussed under Section 3.5.

The direct disadvantage created by the case study method and the lack of quantitative responses is the inability to draw direct statistical data that would empirically prove that a relationship does exist between board diversity and corporate governance. According to Eriksson and Kovalainen (2008), the main reason for popularity of case studies in business research can be found in the tradition of using case studies as a method of teaching in business disciplines (Eriksson & Kovalainen, 2008).

3.4 Cases

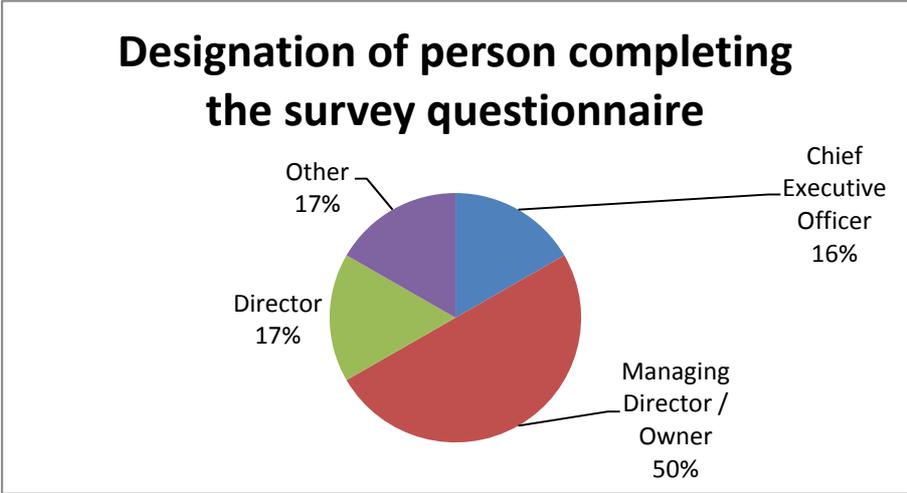
The six cases presented themselves from an invitation to participate in a survey on corporate governance. All six cases come from the business and financial services sector of the economy as classified by the different chambers of commerce in Gauteng. During further investigations and through the conducting of interviews it was found that although these six enterprises was classified as supplying financial and/or business services some of the SMME's derived their primary source of income through other sources than business or financial services.

This then implies a deviation from the intended study of financial and business sector of the economy in Gauteng to SMME's in the general sense. The probability of generalisation to other sectors of the economy could thus be further investigated. The

primary sources of income from the six case included pure financial services, chemical analysis services, manufacturing, educational institutions and light construction. All, however, indicated “services” as a function which possibly led to their wrongful classification. This further highlights the need of access to official data for research purposes. The six cases were part of a population of 359 enterprises which indicated to the different chambers of commerce in Gauteng their status as being private companies rendering amongst others financial and business services. This selection was used as private companies are more likely to be SMME’s, but still have functioning boards.

The survey was completed mainly by Managing Directors or owners of the enterprises as detailed in Figure 3.1 below.

Figure 3.1 Designation of person completing the survey questionnaire



The follow-up interviews made use of standardised open-ended questions thus allowing us to explore the inner workings that led to the three enterprises achieving the three highest scores for corporate governance in the enterprise.

3.5 The research instrument

As previously mentioned the collection instrument used was in the form of a self-enumerated questionnaire. Respondents were invited to participate in the study, and an invitation letter is attached as Appendix A.

The invitation allowed respondents to choose the format in which they would like to participate. This included options for a postal survey, fax or electronic completion.

A sample of the completed questionnaire is attached as Appendix B. The questionnaire comprises of two distinct sections. The first section covers some wider diversity aspects. These aspects were mainly derived from literature. These included age, gender and racial classification, level of qualification and executive status (Van der Walt & Ingley, 2003; Gibson, J L; Ivancevich, J M; Donnelly, J H; Konopaske, R., 2006). A field was also introduced with regard to the number of board members of the enterprise for the purpose of comparing enterprise performance based on the size of its board.

The second section of the questionnaire is based on the tool proposed by Yacuzzi (2008) as described in Chapter 2. The section is comprised of three sub-sections which are explained below. These sections concern aspects of corporate governance. The first covers the general principles of governance followed by the enterprise; the second covers the stakeholder focus of the enterprise; and the third examines the functions of the board in the enterprise (Yacuzzi, 2008).

The questions are closed-ended and use both a scale approach and some limited 'yes/no' answers. A score is applied to each answer in the questionnaire. The maximum score that can be obtained through the questions is 1 000, or 100% when worked back to a percentage. The three sub-sections carry different weights. General principles of governance followed makes up 200 marks from the 1 000 with stakeholder focus comprising 500 marks to the score, the remaining 300 marks is made by board functions.

Each of these sub-sections can subsequently be measured against the total score obtained by the enterprise when expressed as a percentage or to the different diversity dimensions.

For the purpose of this case study approach, such a delimited view of certain functions or focus areas can prove very valuable as each can be assessed on its own. It is not

improbable that diversity in general might only affect a single function or focus area in the enterprise or, alternatively, have a greater impact on one area than on another.

For conducting follow-up interviews, a standardised open-ended questionnaire was used as a guide to the interview. This questionnaire is attached as Appendix C. The questionnaire was posed as to further explore the view of each respondent on how and why certain dimension of diversity affects their enterprise or if these diversity dimensions do not occur in their enterprise, if they believed these dimensions could affect the corporate governance in the enterprise and also why they believed this to be the case.

It further aimed at exploring the types of qualifications possessed by board members. This would aid in exploring the field of expertise of board members as compared to only their level of qualification. Questions on other diversity dimensions which could affect the enterprise aimed at laying a foundation for further research into diversity aspects affecting South African SMME's. Due to the high mortality rate of SMME's in South Africa (ADCORP, 2012), the age of the enterprise was also asked. Due to issues regarding misclassification of enterprises, the economic sector from which their primary income is derived was also explored. To enable the researcher to form a more complete image of the members of the board, the previous experience of different board members was also explored.

To explore the position of the enterprise with regard to the call from government for job creation by the SMME sector a question on this call was asked directly. Lastly each respondent was requested to indicate what difficulties are experienced with applying corporate governance principles in the enterprise, and to what he/she would attribute the score that was obtained for corporate governance through the administered questionnaire.

3.6 Procedure for data collection

Data collection was done through the administration of a self-enumerated questionnaire on respondents that accepted the invitation to participate in the survey; Appendix A is a sample of the invitation.

Communication about the survey was conducted both pre- and post-survey. Pre-survey communication was used to ascertain the population unit's willingness to participate in the survey. This communication invited the respondents to select the format in which they preferred to complete the survey, with post, fax and electronic mail options. Post-survey communication was done to show appreciation to all individual respondents.

The option of receiving the survey report was also offered to respondents, and all respondents indicated that they would be interested in the result; therefore a copy of the results will be emailed to all respondents after acceptance of the research.

The Chief Executive Officer (CEO) or the Chairman of the Board was invited to complete the questionnaire as CEO duality has been noted in SMME's where the CEO might also act as Chairman of the Board (Abor & Biekpe, 2007). Collection of the completed questionnaires was through email (scanned copies), and completed questionnaires in MS Word format. A sample of a completed questionnaire is attached as Appendix B. The sample questionnaire was redacted for the purpose of retaining the confidentiality of the respondent. Follow-up communication with individual respondents was necessary to ensure completeness of the responses received. The sample questionnaire in Appendix B is an "as is" example before the follow-up process ensured the completion of outstanding response on some questions. Communication for the follow-up of responses received was conducted electronically via email.

Data capturing consisted of a manual capturing process. Data was captured in a Microsoft Access database through a capturing interface. This application was developed specifically for the purpose of this survey. The capturing interface made use of drop-down boxes to minimize the risk of errors in data capturing, this functionality also allowed for the automatic scoring of questions as values were coded into the aforementioned drop-down boxes. This further minimised the risk of incorrect scoring due to transcription errors. The data was exported to Microsoft Excel for interpretation.

All respondents were approached for follow-up interviews. Only three respondents indicated that they were willing to be interviewed for further exploration of areas identified in the questionnaire. Not surprisingly, the three acceptances were received

from the three respondents who achieved the highest scores for corporate governance. This in itself might be an indication of their own interest in the field of corporate governance which might also explain the relative high scores obtained by each. Their specific responses are recorded in Chapter 4 and discussed in Chapter 5.

3.7 Data analysis and interpretation

As the research sought to explore if a relationship exists between the board diversity of enterprises and corporate governance, the approach to data collection was that of a mixed method approach as to allow the strengths of both methods to flow into the interpretation of the data (Creswell, 2009).

To further explore and clarify the data collected via the questionnaire, follow-up interviews were conducted with the respondents from the three enterprises who obtained the highest scores for corporate governance among the enterprises studied.

The qualitative data gathered via the interview process will be embedded in the quantitative data (Collins, 2010) in Chapter 5 for the purpose of seeking explanations into the “why” and “how” (Cooper & Schindler, 2008) of the scores obtained for corporate governance by the specific enterprise.

Using descriptive tables in Chapter 4 each variable concerning diversity dimensions described previously was evaluated in relation to the score achieved for corporate governance in the enterprise and also to each of the three sub-sections of the questionnaire which was calculated as a percentage. This method also allows for comparisons between enterprises surveyed.

The qualitative data obtained via the follow-up interviews was acquired through a standardised open-ended questionnaire, the results is displayed in tabular format in Chapter 4.

3.8 Limitations of the study

- Research was limited to enterprises registered with Chambers of Commerce in Gauteng where they indicated their status as being private companies. This was the only source of information on private companies found as requests to the CIPC went unanswered. The only custodians of a complete list of SMME's are Statistics South Africa. Statistics South Africa refused access to a register of SMME's in South Africa citing legal concerns.
- Research might be prone to the possibility of the Halo effect on responses. Due to the subjective nature of participation type questions, respondents might answer the questions in a way which they believe reflect a more positive image of their enterprises (Isham et al. 1994).
- Research limited to only Gauteng might not be seen as a representative sample of the SMME sector in general.
- The financial and business services sector of the economy, although contributing the major part of the gross domestic product (GDP), is a classification which covers wide ranging enterprises, making it difficult to pinpoint results in a specific industry. It was also discovered during the follow-up interviews that although some level of business services were offered, the primary source of income in most cases was from a source other than financial or business services.

3.9 Reliability and validity

Where reliability focusses on the ability to be able to repeat the results obtained, validity focuses on ensuring that what is measured is what was intended to be measured in the first instance (Boslaugh & Watters, 2008). Validity (Easterby-Smith, 2002) in itself can be construct validity which mainly focusses on whether the measuring instrument, in this case the questionnaire used, is an accurate measure of the reality. And internal validity which focuses on the research design and poses the question whether bias can be eliminated. Lastly the external validity would then focus on the domains where the research results may be generalised to other economic sectors of the South African

economy. Only external and internal validity was expanded on as an existing questionnaire was used and field tested as mentioned previously in Chapter 1.

3.9.1 Reliability

The reliability of the questionnaire was ensured as discussed in Chapter 1 by Yacuzzi (2008) during field testing and subsequent amendments of the questionnaire after the field tests. If a newly developed questionnaire is to be used a pilot survey might be needed to prove reliability through recreating the outcome of the scores obtained in the questionnaire.

3.9.1 External validity

External validity, like relevance to other sections of the South African economy would be dangerous to assume. Although the financial and business services sector of the South African economy is the biggest contributor to the gross domestic product, it is a sector which houses a vast variety of business concerns. The sector hosts all business that could not be classified under the Standard Industrial Classification (SIC) as well as business that supply any part of financial or business services to customers or other business alike. Other sectors which historically have been male-dominated might not have shown movement to more diverse boards or might have taken bigger steps towards diversity as to become eligible for lucrative tenders.

It is imperative that further research be done into the wider economy and geographically to ascertain if any external validity does exist outside of the financial and business services sector of the economy; although some of the enterprises studied did indicate that their primary source of income is not derived from the financial or business services which might indicate some level of external validity.

3.9.2 Internal validity

The research conducted made use of a questionnaire as discussed in section 3.4. This questionnaire, developed by Yacuzzi (2008), was field tested and changes were made based on the results of these field tests (Yacuzzi, 2008). For the purposes of this study

some questions around diversity were added. These questions do however not contribute to the overall score any enterprise can obtain for governance thus eliminating bias from the side of the respondent regarding the questions added. It is important to note that the “Halo effect” discussed previously would remain a concern and is near impossible to negate. This aspect of human nature to make one “look good” is possibly the biggest threat to the internal validity (Boslaugh & Watters, 2008) of this type of research.

The entire population as discussed in Section 3.3 were invited to participate in the survey ensuring no bias in the sample selection process.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

To be able to explore if a relationship does exist between board diversity and corporate governance, a mixed method approach was used to collect data. A questionnaire was used to collect quantitative data and interviews were used to gather qualitative data on corporate governance in the enterprises studied.

The use of a previously developed and tested questionnaire for the collection of quantitative data negated the need to pre-test the questionnaire in the field. The questionnaire was field tested during development (Yacuzzi, 2008). The qualitative data collected was collected through the use of a standardised open-ended questionnaire; thereby ensuring that all respondents interviewed were asked similar questions. Only three respondents accepted the invitation for interviews.

The results of the quantitative study are displayed using both graph and tabular format and are augmented through descriptions with information obtained through the interview process. A graph is used for the scores achieved for corporate governance and tables for detailing the results of the questions on different board diversity dimension from the questionnaire. Each case is also displayed separately to ensure that comparisons can be made between cases. Summarised results of the interviews are displayed in tabular format in Table 4.8.

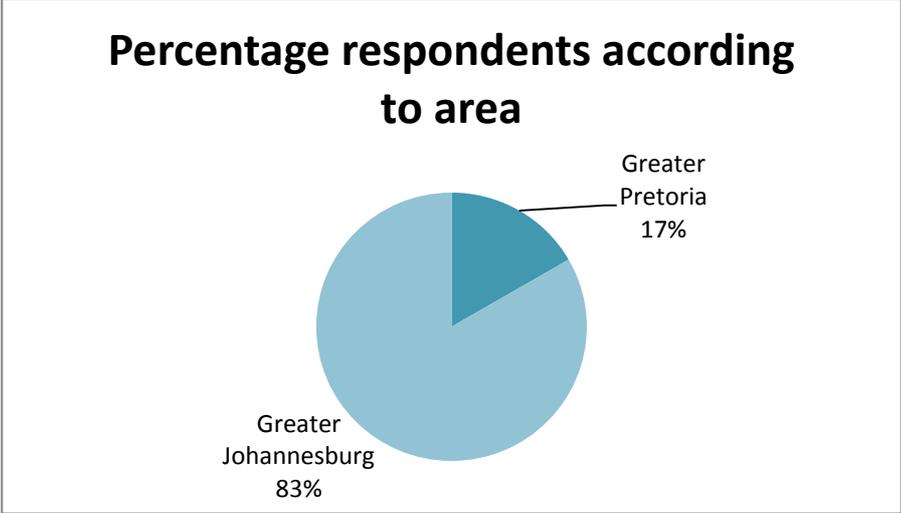
4.2 Demographic profile of respondents

Although a population of 359 enterprises were invited to participate in the survey, only nine accepted the invitation. From the nine acceptances, only six respondents completed the survey. The population covered the entire Gauteng province. The cases studied were predominantly from the greater Johannesburg area in Gauteng as indicated in Figure 4.1. All enterprises interviewed for the purpose of augmenting the

quantitative data obtained through the survey with qualitative data operate in the greater Johannesburg area.

All businesses were classified by the different chambers of commerce and industry in Gauteng as supplying business services, the primary source of income however differs between respondents. The primary source of income varies from pure financial services, business services, manufacturing and light construction.

Figure 4.1 Cases by area in Gauteng



All respondents interviewed indicated their SMME classification as being of “medium” size. This however varied between “medium” and “upper medium” with varied staff compliments and one indicating that it also has offices outside of Gauteng in order to be closer to major clients. Determining the SMME classification was an important step as no official source of classified SMME’s are readily available for public use.

4.3 Quantitative results

The research results displayed below were collected via a self-administered questionnaire. Subsets of variables that yielded no results were omitted for ease of use, for instance the level of qualification where no respondents recorded board members with a qualification level of five years tertiary education or higher.

4.3.1 Score of corporate governance achieved

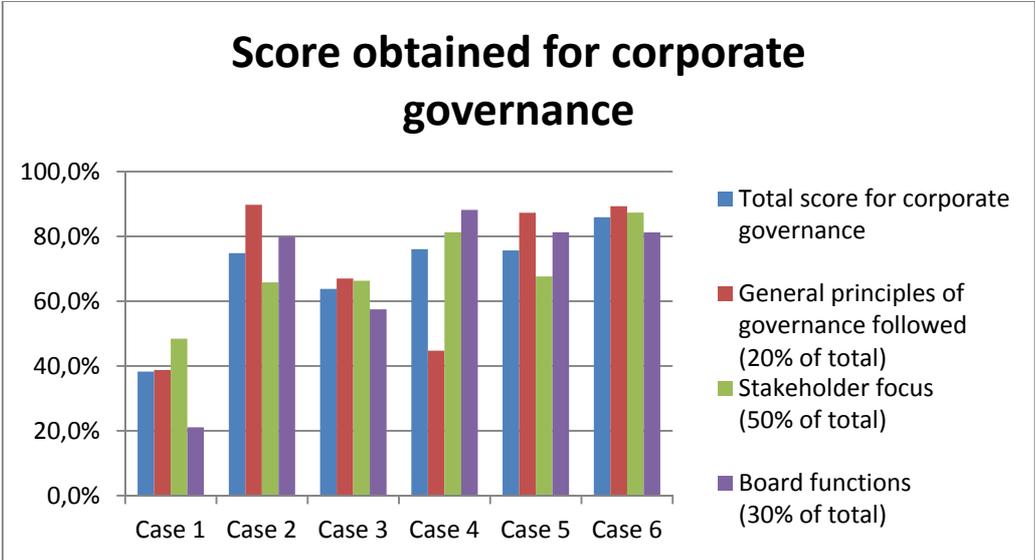
The score obtained for corporate governance in the enterprise was calculated based on the score per question as indicated by Yacuzzi (2008). The score consist of three distinct sections of the questionnaire, each section contribution a different weight to the overall score achieved. The weighting of each section is detailed in Table 4.1 below.

Table 4.1 Weighting of the sections in the questionnaire

Section	Maximum score	Weight of total
General principles of governance followed	200	20%
Focus on stakeholders	500	50%
Board functions	300	30%
Total for corporate governance	1 000	100%

The total scores achieved ranged from 38.3% at the lower end of the spectrum to 85.9% for the top scoring enterprise. The average score across the six cases studied was 69.1%. A standard deviation of 0.17 was observed. As displayed in Figure 4.2 below no cases achieved equal scores across the three sections for corporate governance.

Figure 4.2 Score obtained for corporate governance in the enterprise



The three cases achieving the highest scores being cases four, five and six. All three cases had comparatively high scores with regard to stakeholder focus. Case 4 however achieved the second lowest score across all cases for principles of governance followed despite being ranked second in the overall score achieved.

4.3.2 Number of board members of the enterprise

The average size of the board of directors in the cases studied was 2.3 directors. The individual numbers of directors on the board of the enterprise are displayed in Table 4.2 below. During interviews with the three respondents interviewed, it was indicated by all respondents that they intend to increase the number of board members in the near future. The average board size found was lower than the average found in a study on SMME’s in Ghana by Abor and Biekpe (2007) which indicated the average board size as 3.7 directors.

Table 4.2 Number of members on the board

Case study number	Number of board members
Case 1	1
Case 2	1
Case 3	4
Case 4	5
Case 5	1
Case 6	2
Average	2.3

The three cases who indicated a single board member varied from the lowest score achieved to scores above the average. The highest score achieved by a single board member enterprise was however indicated via the interviews as having three board members up to just before the survey when restructuring of the enterprise resulted in a single board member remaining as single owner of the business. Case 6 as the highest

scoring enterprise only consist of two board members. During interviews it was indicated that, by and large, decision-making happens through inputs from the middle management team during regular meetings and are not necessarily only through the two board members. They further indicated that they are in the process of developing two middle managers for board positions.

4.3.3 Executive status of board members

Only one case was found to have both executive and non-executive directors as members of the board as displayed in Table 4.3. The specific case obtained the second lowest score for corporate governance across the cases studied. The case also scored lower than the average across all three sections of corporate governance as discussed earlier, with the exception of Case 1.

Table 4.3 Number of members by executive status

Case study number	Number of executive board members	Number of non-executive board members
Case 1	1	0
Case 2	1	0
Case 3	2	2
Case 4	5	0
Case 5	1	0
Case 6	2	0
Average	2,0	0,3

4.3.4 Gender of board members

Only two cases indicated members of both genders on the board of directors with three cases only consisting of male members and one case with only a female member as displayed in Table 4.4. When comparing the gender distribution of the three top achievers with regard to governance, one comprises of a mixed board, one male only

and one female only. Through the interview process the following important factors were observed: in Case 5, the current scenario is that of only a female board member, however, before restructuring of the enterprise, the board consisted of two female and one male member. The scenario of Case 6, also being the case with the highest score achieved, decision-making includes middle management through regular meetings, and the middle management level was indicated as containing one female manager.

Table 4.4 Number of members by gender

Case study number	Number of male board members	Number of female board members
Case 1	1	0
Case 2	1	0
Case 3	3	1
Case 4	4	1
Case 5	0	1
Case 6	2	0
Average	1,8	0,5

4.3.5 Race of board members

With the exception of Case 3, all cases studied currently have only White/European board members as can be seen in Table 4.5. Case 3, with the exception of Case 1, scored consistently lower than the average on corporate governance and also on the sections on corporate governance as described previously. From the interviews conducted all three cases interviewed indicated that the race of a board member is not a deciding factor for appointment to the board. Only one case indicated that they are actively searching for a board member other than from the White/European race group. But indicated that appointment is based on proven skill level and the suitable candidates they identified was either not in the market for appointment or would be too costly to appoint.

Table 4.5 Number of members by race

Case study number	Number of White/European board members	Number of Coloured board members
Case 1	1	0
Case 2	1	0
Case 3	1	3
Case 4	5	0
Case 5	1	0
Case 6	2	0
Average	1,8	0,5

4.3.6 Age of board members

In Table 4.6 the number of board members by age grouping is displayed. The board of the highest ranked case, Case 6, consists of members of the upper age group only, the inclusion of middle management in decision-making brings people from the lower age group into play. Two of the middle managers are also being developed to join the board in the near future. In Case 5, due to the restructuring of the enterprise, only one board member who is in the lower age group remained; the previous board members were in the higher age group. However, the enterprise is intending to appoint a new board member in the course of next year who has been identified and falls within the upper age group.

The three respondents ranking first to third have been in operation for 14, 24 and seven years, respectively. This echoes the finding of The Founders Institute on sustainable businesses being started by more experienced persons (Joseph, 2012). When comparing the age of the board members to the age of the business, an exception would be Case 5, but conceivably the age of the single board member was already in the lower bracket when the enterprise was conceived.

Table 4.6 Number of members by age

Case study number	Number of board members in the age group 32 to 49 years	Number of board members in the age group 50 to 75 years
Case 1	1,000	0,000
Case 2	0,000	1,000
Case 3	3,000	1,000
Case 4	3,000	2,000
Case 5	1,000	0,000
Case 6	0,000	2,000
Average	1,3	1,0

4.3.7 Qualification level of board members

Consistently the three highest ranked enterprises had board members with a four year tertiary qualification. Case 5 the qualification is a Master of Business Administration. In Case 6 and Case 5 however, the four year qualification concern engineering disciplines. In the scenario of Case 6, the board expertise are augmented by inputs from middle management which host a wide variety of qualifications including a Master of Business Administration, this specific person has been identified and are being developed for appointment to the board. Case 5 with a bigger board draws on the qualification of board members with Human Resources and Business Administration qualifications.

Table 4.7 Number of members by qualification level

Case study number	Number of board members with a matric/grade 12	Number of board members with a 3 year tertiary qualification	Number of board members with a 4 year tertiary qualification
Case 1	1	0	0
Case 2	0	1	0
Case 3	1	2	1
Case 4	0	1	4
Case 5	0	0	1
Case 6	0	0	2
Average	0,3	0,7	1,3

4.4 Qualitative results

The information gathered via the interview process was summarised and is indicated in Table 4.8 below. The three top ranked enterprises accepted the invitation to be interviewed on their responses in the quantitative study. The information received explained some of the contradictory evidence received via the survey. Where directly applicable, such information was used in describing the result displayed in this Chapter.

Table 4.8 Interview responses

Ranking/Score/Questions		Case 6		Case 4		Case 5	
Ranking from enterprises studied		1		2		3	
Score obtained		85.9%		76.0%		75.6%	
Corporate governance affected by-	Number of board members	Yes	Increased decision making time	Yes	Longer to reach agreement	Yes	Difficult to reach decisions
	Gender of board members	No	Very few females in the field but skills is deciding factor	Yes	Females more flexible with moderating influence	No	Gender not important, skill and passion is important
	Race group of board members	Yes	People of colour lacks drive	Yes	Actively searching for person of colour to join	No	Skin colour not deciding factor
	Age of board members	Yes	Currently developing younger staff for board positions	Yes	Passion in younger members Understanding stakeholders	Yes	More experience
	Qualification of board members	Yes	Higher/more diverse qualifications	Yes	Better decision making	Yes	Better insight and decision making
Dimension most affecting corporate governance		Skill level		Age Race Gender Culture		Physical attributes Gender Sexual orientation	
Age of the enterprise		14 years		26 years		7 years	
Self-classification of size in SMME grouping		Mid- medium		Upper- medium		Upper - medium	
Primary source of income from		Manufacturing of instrumentation (Chemical)		Manufacturing of electronic and mechanical components		Financial services in foreign exchange	
Board member prior experience and qualifications		Engineering, commercial, financial		Engineering, Business administration, Human resource management		MBA (Wits mini MBA), Public relations, marketing	
Call on SMME's for job creation		Labour laws to restrictive Difficulty to enter the market More incentives needed		Difficult to get funding Labour laws to restrictive Difficulty to enter market		Difficult to enter the market.	
Corporate governance difficulties		Time constraints		Assessing environmental impact		No, currently solely responsible	
Experiencing CEO duality problems		No, shared values		No, the personality of the CEO/MD would be a deciding factor		No, values and passion to succeed plays an important role	
Score of corporate governance achieved attributed to		Values Stakeholder assessments		Applying own values and propagated them in the enterprise		Exposure through mini MBA and own values	

4.5 Summary of the results

In summary, the results only focussed on the number of board members, executive status of the board members, gender of the board members, racial classification of board members, age group and qualification level of board members. This is by no means an exhaustive list of diversity variables. As these variables can be measured against the overall score of a given case for corporate governance or a subset as described earlier, it allows us to explore the relationship of diversity aspects not only per aspect but also by case.

The results from the survey were often contradictory. An example would be enterprises with only one board member scoring the lowest and third and fourth highest in the score for corporate governance respectively. Likewise, bigger boards with four and five board members also did not have comparative scores. By conducting interviews and gathering qualitative data the results was supplemented in an effort to explain the discrepancies observed. This will be discussed in depth in Chapter 5.

CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

From the outset of the study the intention was to collect empirical data on SMME's in Gauteng. The intention was to use data from the Business Register of Statistics South Africa (Stats SA) as this register is compiled from various data sources including data from the South African Revenue Service (SARS), the Companies and Intellectual Property Commission (CIPC) – previously the Companies and Intellectual Property Registration Office (CIPRO) – and other Statistics South Africa (Stats SA) data.

Although the Statistics Act (Statistics Act 1999) does make provision for the release of data in the form of lists or registers of contact information, access to this resource was denied by Stats SA citing legal and confidentiality concerns. As this is the only source of official detailed classified business information in South Africa, a new source of business information had to be found. The only source of business data that contained some level of classification on economic sector and size of the enterprise was that of the different Chambers of Commerce and Industry in Gauteng.

This source supplied a total population of 359 businesses that could be classified as SMME's from the data supplied. The entire population was contacted and invited to participate in the survey. Eleven enterprises indicated that they are not interested in being surveyed or contacted in future, nine enterprises accepted the invitation. From the nine acceptances only six completed and submitted the information required.

As previously mentioned, this low response rate necessitated the study to be redefined as a case study so as to allow the researcher to explore if any relationship does exist between board diversity and corporate governance in SMME's. The changes to the methodology are detailed in Chapter 3.

From the results obtained through the survey it became clear that contradicting evidence was found with regard to the diversity variables explored and the scores achieved for corporate governance by the cases studied. To further explore the

relationship between corporate governance and diversity and to clarify contradictions, the results were augmented by interviews with the three top ranked enterprises.

Each variable producing a result is discussed below. The results are further discussed by adding the information received through the interviews conducted. The effect of combined variables also receives attention as the view from the perspective of a single variable might not yield a specific or contradictory result when variables are combined.

5.2 Demographic profile of respondents

Five of the six respondents operate within the greater Johannesburg region of Gauteng and one in the Pretoria region. The six cases surveyed were contacted to conduct follow-up interviews as to be able to explore and clarify some of the contradicting evidence obtained via the survey. Three cases accepted the invitation. The three who accepted were also the three cases recording the three highest scores for corporate governance.

Although the question about their acceptance of the interview was not part of the formal interview, all cases indicated in the discussions that they were interested in the aspects of corporate governance. This then correlates with their acceptance of the survey initially. Secondly the acceptance to be interviewed might even be related to the scores they achieved for corporate governance. The reasons indicated for their interest in corporate governance included: the need to review themselves as compared to other SMME's, compliance with corporate governance aspects in South Africa and a keen interest due to exposure to corporate governance through tertiary education.

Through the interviews conducted it was identified that the three enterprises have been operating for a substantial period of time. The youngest was in operation for seven years, the oldest enterprise for 24 years and the top ranking enterprise for 14 years. All three also indicated their plans for growth and expansion in the near future, two of the interviewees indicating that development plans were underway and would

come to fruition within the next financial year. From the age of board members indicated via the questionnaire it was evident that the enterprises were started by entrepreneurs who already had more life experiences, this correlates with the findings of The Founders Institute with regard to sustainable businesses (Joseph, 2012).

5.3 The impact of board diversity on corporate governance in medium-sized enterprises operating in Gauteng

With the results collected via the survey and the results from the interviews conducted it became clear that often it would not be a single diversity variable that shows a relationship with corporate governance, but rather a combination of variables. To accommodate this we need to look at each variable separately and in conjunction with other variables. The score obtained for corporate governance is discussed first, followed by the variables contained in the survey that yielded responses.

5.3.1 Score for corporate governance

The scores obtained for governance varied from 38.3% to 85.9%, with the average score being 69.1%. The scores obtained were influenced by three sections on corporate governance contributing different weights to the overall score. With stakeholder focus contributing 50% of the total score, it would follow that if an enterprise scores higher in this section, it would be benefitted on the overall score achieved.

This was specifically the scenario observed in Case 4 where it scored the second lowest score with regards to the principles of governance followed, but still had the second highest overall score due to its high score on stakeholder focus. During the interview with the respondent in Case 4 this focus on stakeholders was highlighted by the respondent as a necessity to be sustainable in a “very competitive market”. Their social responsibility as an enterprise was also highlighted by the respondent. This was also observed in Case 5 although it scored lower than the average with regard to stakeholder focus. Case 6, with the highest score in stakeholder focus, highlighted not only their focus on responsibility to their staff only, but indicated that

monthly visits to their facility by their clients necessitate a higher focus on stakeholders. With the exception of Case 1 where stakeholder focus was the highest scored component of the section in the questionnaire, albeit the lowest score from all the cases, it would thus seem that similar to the findings by Agle et al. (2008) stakeholder focus is receiving wider attention (Agle, et al., 2008) not only in larger corporations but also in the SMME sector. As social responsibility aspects were specifically highlighted by all cases interviewed, it does indicate the willingness of the cases studied to be involved in social responsibility even if they do not have the financial resources as compared to larger corporations (Abor & Adjasi, 2007).

In respect of principles of governance followed, Case 5 and Case 3 can be compared due to the fact that both indicated family relationships between board members and the chairman of the board. Case 5 recorded an extremely low score of 44.8% compared to the average of 69.5% recorded across all cases. The reason for this could possibly reside in the fact that the current board structure of Case 5 is essentially that of a family-run business with board members being related to the Chairman of the Board. In Case 3 a similar scenario was observed; however, with the important distinction that the board also has non-executive directors. Case 3, however, recorded a score of 67% for principles of governance followed. Although Case 3 was not available to be interviewed, the clear distinction between the two cases resides in the diversity of executive and non-executive directors on the board although both indicate that the enterprise has related board members. This could imply that a relationship does exist between the composition of the board and the executive status of its members. This is also addressed in Section 5.3.3 below.

On board functions, Case 1 scored an extremely low 21.1%. This is substantially lower than the average of 68.2%. Although Case 1 scored lower in all disciplines surveyed on corporate governance, the section on board functions was 17.3% lower than the score for governance obtained by Case 1. The distinction between Case 1 and cases 2 and 5 who are also “one man” operations can only be found in the level of qualifications held by the Chairman of the Board, in this case also the owner of the enterprise. From the cases interviewed, it became apparent that a tertiary qualification was regarded as very important in decision-making from a perspective of insight into management. This by no means indicates that an entrepreneur with

only a secondary qualification could not be successful, but rather that there is a high probability that a relationship does exist between qualifications and corporate governance. This is discussed further in Section 5.3.7.

From the above it is highlighted that SMME's, based on their scores achieved for stakeholder focus combined with a move towards becoming more socially responsible enterprises – as were seen through those interviewed, understand that corporate governance as a whole is not something which is for corporates only, but applies to all enterprises irrespective of size.

5.3.2 The number of board members of the enterprise

The average number of board members was found to be 2.3 members per board. This was influenced to a great extent by the fact that three respondents were single owner operators. Through interviews with the top three scoring enterprises the following was however observed: All three indicated that they are in the process of extending their membership, two within the next financial year and one as soon as a suitable candidate is found. By assuming the same scenario in the three cases not interviewed, the average number of board members would be 3.8. This correlates with the findings of Abor and Biepkpe (2007) where the average number of board members in SME's in Ghana was found to be 3.7 members (Abor & Biepkpe, 2007). Although this is a dangerous assumption (that all enterprises surveyed would increase their boards), the combined number of new board members indicated by the cases interviewed was four new members. This would then bring the average board size to 3.5 when excluding those not interviewed.

What became apparent through the interview process is that smaller boards, for instance a single owner or a board of two directors, relied on outside inputs for decision-making. This was however not the case with bigger boards. The respondents of Case 5 for instance indicated that the enterprise relies heavily on inputs from outside the enterprise. Through networking, a wide pool of persons with varied expertise which could be called upon when making board decisions was developed. Specifically in Case 5, this was necessitated by the departure of two previous board members which resulted in the enterprise becoming a one man operation in a short space of time. Observed in Case 6, the top scoring case for

corporate governance, was an entirely different approach; with a board consisting of only two members currently, the board gathers input from their middle management group with regular intervals, this aids their decision-making. Importantly, they have identified two people from this group and are developing them for board positions. In both cases the inputs received external to the board was indicated as coming from a diverse group with regards to gender and age. In essence the two examples are thus augmenting their boards through more diverse external sources.

All cases interviewed expressed a belief that board size does have a relationship with corporate governance, but all of them felt that bigger boards would lead to a more cumbersome decision-making process, regardless of this perceived negative impact, as stated, they are all in the process of expanding their boards to achieve better decision-making; thereby implying a positive trade-off between cumbersome decision-making, and better corporate governance. It is interesting to note that smaller boards, as indicated, found ways of “expanding” the information base of the board as they realise they lack depth, notably stated by both cases concerned this lack of depth in their boards concerning gender, age/experience and qualifications, which is discussed in Section 5.3.4, Section 5.3.6 and Section 5.3.7.

5.3.3 The executive status of board members

As indicated in Section 5.3.1 the only case that presented a board with diversity towards executive status of board members was Case 3. When compared to a case with a similar position of having family members as board members, having both executive and non-executive board members might have a relationship with corporate governance, more specifically with regard to principles of governance followed.

As indicated in Section 5.3.2, smaller boards indicated that they augment their boards with structured outside inputs. This would imply that although accountability remains with the board, insular decision-making is largely negated by using these outside inputs as one would expect that boards will use those of non-executive members. Five of the six cases surveyed indicated duality by the Owner/Managing Director/Chief Operations Officer through major shareholder ship and being chairman of the board. The cases interviewed were asked a specific question on

CEO duality and the resulting risk of insular decision-making as highlighted by Chatterjee and Harrison (2006) that CEO duality might lead to a scenario where insular decisions are based on the wellbeing of the CEO rather than that of the enterprise as a whole (Chatterjee & Harrison, 2006).

All interviewees stated that they do not experience any problems with filling both roles. This might however be a “halo” answer as they would not prefer to portray themselves in a bad light (Isham, et al., 1995). With the possibility of the answer being skewed by the image they would like to portray, it is interesting that all three respondents indicated their own values not only as major shareholders but personal values as the reason which allows them to operate responsibly as both chairman of the board and major shareholders. These values were identified as result of upbringing, qualifications and work experience.

Due to only one case possessing a diverse board from a membership status perspective, a direct relationship would be difficult to identify, taking into consideration the steps taken by other boards, it would however seem that a relationship might exist and would warrant further research.

5.3.4 The gender of board members

Two cases presented boards with diverse genders on the boards. In both cases only one female member is a board member. This would indicate board positions are still male dominated. Further to this, from the six cases studied four board chairmen were male, one female and one could not be identified. This further indicates that males still dominate the boardrooms of the cases studied with at least 60% of chairmen being male. The four male chairmen include only one person not racially classified as White/European, this dimension will be discussed further in Section 5.3.5. By implication, it indicates that 50% of the cases studied are run by White males.

The information with regard to the smaller boards augmenting their decision-making with inputs external to the board however again creeps into this equation. Both cases, one a single person board with a female chairperson, the other a board consisting of two males indicated that their sources of external input included people

from both genders. Both respondents indicated that they do not believe that gender would be an important factor in the corporate governance of their enterprises, the level of skill and abilities outweighs the gender or skin colour of a person. This correlates with the findings of Van der Walt and Ingley (2003) that indicated that diversity of boards could be motivated by social and moral factors but that no clear business case could be made when looking at the bottom line of the enterprise (Van der Walt & Ingley, 2003).

One respondent while being interviewed, however, indicated that male board members were extremely testosterone-driven, and that having a female board member brought a moderating effect to the board which were found important and helpful in the governance of their enterprise.

When taking into account that female and male inputs respectively were used in the augmented boards described previously, and the direct implication highlighted by one respondent the possibility does exist that gender might have a deeper relationship with corporate governance and the functioning of boards than thought. This cannot be identified by this study due to its small scale but should be investigated in future research.

5.3.5 The racial classification of board members

Some might argue that racial classification became invalid after the first democratic elections in South Africa in 1994. For the purpose of this study it is pertinent, as racial classification is what kept many South Africans out of the mainstream workforce and out of management positions pre-1994 (Visagie, 1999). However, the study only produced one case that was not White/European dominated – this case was ranked fourth in regard to the score for corporate governance achieved at 63.8% compared to the average of 69.1%.

During the interviews it was however found that different views exist in relation to people of more diverse racial classification. One respondent indicated that they were actively searching for a person of colour to join their board as they believe a person of colour would have a positive impact on the enterprise; specifically with regards to its black economic empowerment (BEE) status. The respondent further elaborated

that they have so far been unable to find such a person with the skills and abilities they required, those that did fit the person profile they were searching for was either unavailable or too costly to appoint. Another respondent indicated that they could not find a person of colour with the “drive” and experience they required in their line of business to make a success. The last respondent indicated that the colour of the person’s skin is not a deciding factor and that the skills and abilities of the person is a deciding factor. When evaluating these statements, it is clear that in essence all three respondents say the same thing, skills and experience outweighs skin colour. When posing the question of appointing a person of colour for the purposes of the “window dressing” all three respondents indicated that they were not willing to appoint a person based on his/her skin colour alone, even at the cost of not receiving more lucrative contracts.

It would thus seem that from this study the evidence is contradictory with regards to the relationship between racially diverse boards and corporate governance, with the important note that in the cases interviewed, skills and abilities outweighed the colour of the person’s skin.

5.3.6 The age group of board members

According to Joseph (2012), the age of entrepreneurs has a major impact on enterprises. He postulates that life experiences form an important part of decision-making in the enterprise (Joseph, 2012). This would imply decisions made by the members of the board of an enterprise.

In this study two age groups presented themselves, namely 32 to 49 year or then roughly “generation y and x” and 50 to 75 years, roughly “baby boomers”. Eight from the fifteen directors on boards of the different enterprises fall into the first category and the remainder in the second.

Importantly, among the enterprises interviewed the two case with the “older” boards indicated that they were looking into appointing additional members that were younger and fall into the 32 to 49 year age group. Their reasons for this vary although they believe that it would aid in the corporate governance of their enterprise. The reasons supplied varied from the younger generation possessing

more passion and being closer to their specific stakeholders to the younger generation possessing specific skills that would aid corporate governance in the organisation. One respondent indicated that they were developing middle managers to become board members based on their skills and abilities, notably one of the identified person's possess a Masters of Business Administration, this will be discussed more in Section 5.3.7. The other respondent interviewed also indicated that the enterprise was in the process of appointing an additional board member. Interestingly, as this board is currently a single female person board in the age group 32 to 49 years, their interest is to appoint a male member in the 50 to 75 year age group – citing the experience level of the person, and the perceived stability that an older member would bring to the board.

Although no clear relationship between age of board members and corporate governance could be identified through the survey, all respondents interviewed believed that age plays an important part in the board members' profiles, with all indicating they would prefer a more diverse board with regard to age. The age of the person is however not the deciding factor and should be seen in conjunction with other attributes like gender, qualifications and experience.

5.3.7 The qualification level of board members

Through the survey a wide range of qualification levels were observed in the cases studied. The lowest scoring enterprise, Case 1 indicated only a secondary level qualification with the three top scoring enterprises indicating a four-year tertiary qualification; one case indicated a board member with a three-year qualification.

During the interview process the types of qualifications were further explored. One respondent indicated that the level of qualification was less important than the type of qualification, indicating that board members possess engineering qualifications, with others having business administration qualifications. In the case of the highest and third ranked enterprises, a high focus was placed on two aspects, in the case of a single board member the corporate governance applied in the enterprise was attributed to two factors, firstly the exposure to corporate governance through doing a Master of Business Administration and also the high qualification level of the external network used in decision-making. In Case 6, the top ranked case in regard

to corporate governance, the board members possess engineering qualifications but indicated that they value the input from a specific manager who possesses a Master of Business Administration together with a degree in chemical engineering which relates directly to the field in which the enterprise operates. It seems the smaller boards who augments their board expertise through structured external inputs again features strongly.

All interviewed respondents resultantly also indicated that they believed that the level of qualifications or diversity of qualifications relates to the making of better or more informed decisions and, by implication, better corporate governance. The respondents also pointed out that they are actively working towards diversifying their boards with regards to the qualifications of members.

Based on the experiences of these top ranked respondents and the move to diversify qualifications of board members, we can identify that there is a high probability that a relationship exists between the board members' levels of academic qualification and corporate governance.

5.4 Conclusion

The contradictory evidence from the scores received for corporate governance between single owner operations or small boards compared to larger boards was partially explained through the level and types of qualifications of board members.

Also, the tendency of the cases with smaller boards studied to augment their boards adds to explaining the differences in corporate governance. Augmentation happens through structured external inputs from either networks of suitably qualified people or from similarly suitably qualified people from within the organisation.

Diversity aspects that showed the highest probability of having a direct relationship to corporate governance were the age and qualifications of board members. None of these can however be seen in isolation as was often indicated by respondents interviewed that a person of a specific age with a specific qualification that would aid in governance would be preferable for inclusion on the board.

Through comparison and the use of augmented boards, it seems probable that the executive status of board members might also be an important part in the dimensions of corporate governance, specifically the general principles of governance followed. External sources of input would not affect the functions of the board but could possibly affect stakeholder focus.

The two diversity dimensions which showed the least probability of having a relationship with corporate governance are the racial classification of board members and the number of members on the boards. Both these are outweighed by the qualifications and experience of the board members.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This study set out to explore the relationship between the diversity of board members in SMME's and corporate governance in the enterprise. The exploration and identification of such relationships are important in the South African context where various external factors influence SMME's.

All enterprises in South Africa are faced with complying with legal requirements such as the Broad-Based Black Economic Empowerment Act (Broad-Based Black Economic Empowerment Act 2003), the Employment Equity Act (Employment Equity Act 1998) and, also, the new Companies Act (Companies Act 2008). The latter including various recommendations from previous reports on corporate governance from the Institute of Directors in Southern Africa, better known as the King I and II reports. Although compliance with the newest report on corporate governance, King III, is on a comply or explain bases rather than serious punitive implications, it is important to note that it is not removed from the law, as is evident in the inclusion into the new Companies Act (Companies Act 2008) of previous recommendations.

These issues weighs heavily on SMME's in general who are often called upon for the creation of employment in a country which, according to Statistics South Africa, had an unemployment rate of 25.5% in the third quarter of 2012 (Stats SA, 2012). This call has been voiced by various leaders and politicians alike (Davis, 2010) (Zuma, 2012).

Thus, exploring if any relationship exists between board diversity and corporate governance in medium-sized enterprises operating in Gauteng should allow us to better understand the diversity factors affecting SMME's. By identifying these factors, future research can gain by focussing their attention on the factors which showed the most influential relationship between board diversity and corporate governance.

6.2 Conclusions of the study

The quantitative data collect for this study was augmented by interviews with respondents to be able to clarify some of the contradictory evidence found during the survey.

The study identified that a relationship between certain diversity aspects and corporate governance does exist. The clearest relationship found was between the level and type of qualifications of board members and corporate governance. An interesting observation was how smaller boards, notably a one person board and a two person board, made use of external sources to augment their boards to aid in decision-making and corporate governance; this was, however, not noticed in enterprises with larger boards. These external sources of input to board decision-making were obtained through a network of suitably qualified and experienced people in one instance, and through inclusion of middle managers in another. Both, however, indicated the external sources as being diverse with regard to gender, age, qualifications and experience; thereby identifying diversity of value to their decision-making processes.

With regard to gender as an attribute of diversity the quantitative data did not indicate a clear relationship with corporate governance, as was also found in previous studies. The qualitative data however indicated that certain enterprises would value female board members, but that the functions of the enterprise were of such a nature, that it led to very few female professionals being interested in the specific field. Those that have female board members indicated the value of female members in that they are more people-orientated and brings valuable moderation to the board; this leading to a perceived improved decision-making process in the board.

The always burning issue of race brought forth interesting results from the cases studies. Unfortunately, only one case presented a racially diverse board, this case was not available to be interviewed. It was indicated in no uncertain terms by the respondents interviewed that they were not willing to appoint people of colour to their boards purely for the purpose of “window dressing” even if it would allow them an

improved BEE status. It was found that respondents weighed the skills, competencies, qualifications and experience of board members higher than the colour of their skin.

Diversity from a perspective of age also showed a specific relationship to corporate governance from the perspective of respondents interviewed. Notably, younger boards with respect for the age of board members were actively seeking older members to introduce experience and stability to the board. Whereas, older boards indicated they were actively searching or developing younger people so as to increase the diversity of qualifications and skills on their boards.

The short answer to the research question would thus be “yes”, board diversity does have a relationship with corporate governance. However, the answer is far from being linear. The results of the study would indicate that the relationship between corporate governance and board diversity lies not in a single variable of diversity, but rather in a combination of variables for each board member; allowing different board members to fill in the gaps in the board as to aid in corporate governance.

6.3 Recommendations

It is recommended that official information on SMME's be made available to researchers. These would include a database of SMME's properly classified by economic sector and size. This would allow for more focussed research in to SMME behaviour and concerns.

As previously stated, the South African government indicated employment as one of its key focus areas and the expectation exist that the SMME sector should be a major contributor to employment in South Africa as is the case in other countries as described in Chapter 1. There, however, seems to be a lack in official data with regard to SMME's in South Africa. By making available official data on, for instance, liquidations and insolvencies specifically in the SMME sector, future research can become more comprehensive and could aid in the creation of sustainable SMME's in South Africa

6.4 Suggestions for further research

The observed relationships between diverse boards and corporate governance warrant some further investigation and research. The following can be researched to enhance the understanding of corporate governance in relation to board diversity in SMME's:

- An empirical study to ascertain if a causal relationship can be identified between diverse boards and corporate governance in South African SMME's, this would add to understanding the corporate governance landscape in South Africa concerning SMME's.
- The diversity attributes that displayed a relationship with board diversity should be researched in a bigger sample to enable future research to narrow down the most influential relationships allowing more focussed research.
- Research specifically aimed at understanding the impact of legislation on the high mortality rate of SMME's would aid in future policy development.

If these and other areas of interest in SMME's are not researched and understood, we might be faced by questions regarding corporate governance in SMME's ad infinitum.

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APPENDIX A: INVITATION TO PARTICIPATE IN THE STUDY

Department of Business Management

University of South Africa (Unisa)

Researcher: HB Kruger

Title of study: The impact of board diversity on corporate governance in medium sized private enterprises.

Dear Respondent

You are invited to participate in an academic research study conducted by HB Kruger, an MTech: BA student of the Department of Business Management at Unisa.

The purpose of the study is to ascertain the impact of board diversity on corporate governance.

Please note that:

- The study involves an anonymous survey. This means that your name will not appear on the questionnaire and the answers that you give will be treated as strictly confidential.
- You cannot be identified in person based on the answers you give.
- Your participation in this study is very important to me. You may, however, choose not to participate and you may stop to participate at any time without any negative consequences.
- The results of the study will be used for academic purposes only and may be published in an academic journal. I will provide you with a summary of the results of our findings on request.
- Should you have any queries, please do not hesitate to contact me on herman.kruger@gmail.com

Please indicate in the table below that:

- You have read and understand the information above.
- You give your consent to participate in the study on a voluntary basis.

The study is being conducted with a selected audience and targeted at the chairman of the board of directors, chief executive officer, or managing director depending on the organisational structure. If you have any questions, please do not hesitate to contact me via email. If your specific organisation does not have a board of directors and you wish to be removed from the contact list please select this option below.

Thanking you in anticipation

Herman Kruger

Student: Herman Kruger

Po Box 908835, Montana, Pretoria, 0151

Cell: 082 9049938

Herman.kruger@gmail.com

Supervisor: Prof. Dr S Steyn

Tel: 012 429 3740 o/h Email: pienas@unisa.ac.za

Please mark your preference below with X.

Please return completed forms via email to herman.kruger@gmail.com

Or fax to 086 643 5773

I am interested in taking part in this survey (You have read and understood the information and give your consent to participate in the survey)	Yes	No
Please contact me with the survey Company name: Enter company name My name: Enter first name and surname		
Mail to my postal address: Enter address	By email: Enter email address:	By fax: Enter fax number

I would like a copy of the survey report	Yes	No
Mail report to: Enter address	Email report to: Enter email address:	Fax report to: Enter fax number
My company does not have a board	To be removed from any future mailings, please reply to this message with "Not interested" in the subject line	

APPENDIX B: SAMPLE SURVEY QUESTIONNAIRE

(Redacted for confidentiality)

Board Diversity Survey

Enterprise name and address	Contact details
	Contact person: [REDACTED]
	Tel: [REDACTED]
	Email: [REDACTED]
	Designation: CEO

Purpose of the survey

This survey is conducted in fulfillment of the requirements for a Magister Technologiae Business Administration degree through UNISA.

The purpose of the study is to ascertain if any causal relationship exist between corporate governance and board diversity for medium sized private enterprises in the financial and business services sector registered in Gauteng.

Confidentiality

All information collected via this study will be handled as highly confidential. No unit data will be disseminated. Access to all data stored electronically and in hardcopy will be restricted and for the exclusive use of the researcher.

Results will be generalised for use in the fulfilment of the requirements for the dissertation of limited scope. All data will be handled in accordance with the UNISA policy on research ethics which will be made available on request.

Please indicate that you as the respondent give your informed consent for the use of this data for research purposes

I [REDACTED] hereby give consent for this data to be used for research purposes.

Due date

The due date for completion of this survey questionnaire is : **29 March 2012**

It is recommended that you retain a copy of this questionnaire in the event of a query.

Survey forms can be returned via post, fax or email to:

Herman Kruger

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 ✉ herman.kruger@gmail.com
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The Stakeholders

	Fully agree	Agree	Unsure	Disagree	Totally disagree
23. Searching for value creation for the shareholder (measured, for example, by return on assets) is a core motivation for top management.		x			
24. Searching the benefit for the stakeholder is a core motivation for top management.		x			
25. Future shareholders' income is a core concern of top management.			x		
26. By management orders, areas responsible for the preparation of accounting and other documents report on the company situation and its future perspectives with greater scope than that established by law.			x		
27. The board does not receive complaints from shareholders that are not part of the board.		x			
28. Frequently, reports are prepared at the request of minority shareholders.			x		
29. There exist mechanisms for the minority shareholders to freely suggest themes for the board's agenda.		x			
30. Minority shareholders have veto power on key commercial and operative decisions.				x	
31. Employees' salaries are a core concern of top management.		x			
32. Job security for our employees is a core concern of top management.		x			
33. Working conditions at our firm are a core concern of top management.		x			
34. My company devotes important resources to train its employees.			x		
35. Periodic reports issued by the company have its employees as an important target.			x		
36. My company regularly issues news for its employees (news boards etc.).		x			
37. There exist systems to transmit complaints and opinions from the employees.		x			
38. Obtaining product/service quality for our customers is a fundamental objective in our firm.		x			
39. Our top management strives to provide our customers the greatest value at the lowest possible price.	x				
40. Our publicity, brochures, and sales literature convey a complete and truthful image of our products/service features.		x			
41. Our warranty policy and after-sale service is efficient and tries to maintain customer loyalty.		x			
42. There are no complaints from customers.				x	

	Fully agree	Agree	Unsure	Disagree	Totally disagree
43. Economic capacity is the core concern of our company.			x		
44. Our accounting department applies the most modern techniques for forecasting cash flow and other financial variables.				x	
45. There are no claims from our creditors.		x			
46. Our financial information is broad and is available on the Internet to our creditors.				x	
47. Our creditors are allowed to observe our meetings.				x	
48. Our company makes every possible effort to guarantee our suppliers a long-lasting relationship.			x		
49. We train our suppliers so that they can consistently improve their product/service quality.				x	
50. Our company carries out supplier development programs on a regular basis.				x	
51. Our company always pays its suppliers according to contract terms and industry practices.	x				
52. There are no complaints from suppliers towards our company.	x				
53. Employment creation is a core, explicit policy of our firm.				x	
54. Facilitating the job of government at all levels is a core concern of our firm.				x	
55. Our company always issues timely reports demanded by law (for example, those related to environmental variables).	x				
56. Our company collaborates with government to strengthen transparency in our industry, even beyond what the law demands.		x			
57. Our company invests time and resources to strengthen operational safety and security.		x			
58. Our company conducts consultations with experts on industrial safety and its impact on society.		x			
59. Our company actively collaborates with insurance companies and industry chambers in order to improve the quality of our industrial safety and health.			x		
60. Our company offers all required industrial health-related information to the public and health authorities.		x			
61. Our company works hard in order to avoid damaging the environment.			x		
62. Our company is aware of the importance of saving natural resources and works to that end.			x		
63. Our company develops social initiatives in order to help the community.		x			

	Fully agree	Agree	Unsure	Disagree	Totally disagree
80. In our company there has been no cases in which a manager or director has had a conflict of interest in transactions with related parties e.g. an external director who is involved in a firm with which our company is transacting.		X			
81. During the last three years there has been no disciplinary measure to the board or top management for violation of commercial law.	X				
82. During the last three years, none of our directors have been sanctioned for violating his/her fiduciary duties.	X				
83. Top management's salary and benefits are related to company performance.		X			
84. The board has an agenda on management evaluation.			X		
85. Our policy is that our directors must be committed to initiate decisions on markets, customers, employees, products, technology, budgets, etc.		X			
86. Our policy is that our directors must be committed to ratify decisions on markets, customers, employees, products, technology, budgets, etc.		X			
87. Our policy is that our directors must be committed to support the management team in implementing decisions on markets, customers, employees, products, technology, budgets, etc.		X			
88. Our policy is that our directors must be committed to monitor decisions on markets, customers, employees, products, technology, budgets, etc.			X		
89. Our policy is that our directors must be committed to give advice relative to general administration, legal topics, economic and financial topics, technical issues, marketing etc.			X		
90. Our policy is that our directors must be committed to contribute to important parts of the environment, such as financial institutions, customer, and government bodies, to reduce uncertainty.			X		
91. Our policy is that our directors must be committed to contribute to important parts of the environment, in order to strengthen it and enhance its image and brand name.			X		

Thank you

Thank you for taking part in this survey. If you have any queries please do not hesitate to contact Herman Kruger on herman.kruger@gmail.com or 082 904 9938.x

Please indicate if you would like to receive a copy of the results of this study via email.	YES	NO
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Comments

If you would like to add any comments with regard to SMMEs, governance, boards in SMMEs or any other relevant area, please feel free to do so in the space provided below.

APPENDIX C: SAMPLE INTERVIEW QUESTIONNAIRE

(Redacted for confidentiality)

Contact	Email	Designation	Consent	Score obtained for:				Ranking
				Corporate governance	Principles of governance	Stakeholder focus	Board functions	
[Redacted]	[Redacted]	Managing Director	True	76.03%	44.75%	81.27%	88.17%	2
Date interviewed: 2/11/2012			Time spent: 30 minutes					
1. Current number of board members.								
2. Do you believe that having more board members will affect your score for corporate governance, or part of the score?		<input checked="" type="checkbox"/> No. Why & How? More members will increase decision making time. On the flipside it could add due to different focus areas of members.						
3. Do you believe that having a more gender diverse board will affect your score for corporate governance, or part of the score?		<input checked="" type="checkbox"/> No. Why & How? Currently one female on the board. Women are more flexible than men and could possibly aid in governance in general due to the moderating influence they have on the board. Women deal better with people.						
4. Do you believe that having a more racially diverse board will affect your score for corporate governance, or part of the score?		<input checked="" type="checkbox"/> No. Why & How? Would aid in UK states, not bar actually searching for a person of colour to join the boards. It is important that the person poses the skills and qualification required. Will not do "window dressing" those found to experience other.						
5. Do you believe that having a more age diverse board will affect your score for corporate governance, or part of the score?		<input checked="" type="checkbox"/> No. Why & How? As the current board is older, bringing younger members on board will introduce new ideas. Younger people have more passion and understands the stakeholders better.						
6. Do you believe that having a more qualification diverse board will affect your score for corporate governance, or part of the score?		<input checked="" type="checkbox"/> No. Why & How? As the business grows it became apparent that only technical knowledge of the field is not enough. A person with management qualities will aid governance if employed to the board.						
7. What types of qualifications are held by board members?		Currently: 4 Engineering degrees 1 Business Administration degree.						

8. Which diversity dimension do you feel affects corporate governance the most?	<input checked="" type="checkbox"/> Ethnicity <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Physical attributes <input checked="" type="checkbox"/> Sexual orientation Other: Culture. It is important to get inputs from a diverse group as possible. This would aid in governance.
9. How long has the enterprise been in operation?	26 years * The values of the MD are propagated through the enterprise.
10. Do you classify yourself as a SMME?	<input checked="" type="checkbox"/> No but to the upper end of the spectrum. Started small.
11. From which source do you derive your main income, sector of the economy?	From manufacturing of electronic and mechanical components
12. What prior experience do board members have?	Mechanical and electrical engineering. Human resource management. Finance (general business admin).
13. How do you as a SMME feel about the call from Government on SMME's to be the major creators of employment in the country?	<ul style="list-style-type: none"> Labour laws are too restrictive. More incentives are needed to allow new businesses to start up. For a new business access to finance and credit is difficult. Lack of skilled people affects both new businesses and existing additional jobs.
14. From the perspective of your enterprise, what problems or concerns do you have with regard to corporate governance?	There has been a change over the last few years. Although not so as a major problem. Issues on social responsibility come into play. Also the labour laws that changed introduced new problems but have always tried doing the 'right' thing.
15. How do you manage the dual role you play in the organisation (CEO duality)?	A lot depends on the personality of the MD/CEO when playing such a dual role. Own values ensure that stays on the right track. Not not overly concerned with own interest. MD CEO
16. To what will you attribute the score obtained for governance to?	Values from upbringing. Since inception the company's strive to be responsible. There is a big drive to be the best. E.g. "Best company" to work for so you're striving to be better.