CORPORATE GOVERNANCE AND SUSTAINABILITY OF SMALL SCALE ENTERPRISES (SSES) IN ODISHA– AN ANALYSIS

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Abstract

Small Scale Enterprises (SSEs) are the engine of growth for a developing economy and play an important role in creating inclusive growth. SSEs contribute to economic development by creating employment for rural and urban population, providing flexibility and innovation through entrepreneurship and increase trade by diversifying economic activity. Their role in income generation and economic growth for developing countries is critical.Governance of these enterprises has peculiar characteristics and issues. Corporate governance enhances competitiveness of SSEs by playing an important role in management and mobilization of resources as well as their sustainability in the long run.The lack of awareness among SSEs generally results in increase of financial difficulties, worsening of relationships between SSEs and financial institutions, and decrease public confidence.Taking perspicacity to the views, the present study was undertaken with an objective to analyze the impact of the Corporate Governance attributes on the sustainability of the SSEs in the state of Odisha

Key Words: *Corporate Governance, SSE, Managerial Skill, Managerial Efficiency, Ethical practices, Disclosures and Evaluation.*

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1. Introduction

Small Scale Industries (SSEs) are the engine of growth for a developing economy and play an important role in creating inclusive growth. SSEs contribute to economic development by creating employment for rural and urban population, providing flexibility and innovation through entrepreneurship and increase trade by diversifying economic activity. Their role in income generation and economic growth for developing countries is critical. In the developed countries SSEs are major contributors to GDP and private sector employment contributing as much as 60% to workforce. In developing countries, they employ more than 70% of labor force. The abundance of labor and the shortages of capital which are characteristics of developing countries are comparable with the SSEs labor intensive character.

The competence of a SSE is a result of how the corporate governance of that firm developed, organized and mobilized several types of resources over a period of time. We believe that competence reflects accumulation. The resources refer to are several, such as information, skill, capital, design capability, degree of customization, modes of learning and management of knowledge. However, they face challenges related to access to finance, forging international linkages and access to technology. Governance of these enterprises has peculiar characteristics and issues. Corporate governance enhances competitiveness of SSEs by playing an important role in management and mobilization of resources as well as their sustainability in the long run. Corporate governance matters if developing countries are serious about addressing challenges to these enterprises.

2. Statements of Problem

For SSEs, corporate governance is about the respective roles of the shareholders as owners and the managers. It is about establishing rules and procedures to manage and run the enterprise. Corporate Governance is also about settingup a system of checks and balances to prevent abuses of authority and to ensure the integrity of financial statements. Good governance does not guarantee business success but it is one of the main factors which can help in long-term success. The symptoms of poor governance may not be immediately visible and in the long-run it can cause serious problems. In case of SSEs, governance frameworks determine the capacity of small firms to raise capital. Financial markets are faced with the problem of information asymmetry i.e. the difficulty of evaluating the quality of the firm's management framework and protection against moral hazards; hence corporate governance is important. It provides resources to the firms and also helps them to organize these resources. Other key benefits to SSEs include better and stronger system of internal control and accountability, transparency, strategic vision through participation of outside experts on the board, owner to focus more on strategic directions and expansion of business than day to day operations and ability to attract better managers. Corporate governance can therefore be viewed as a mechanism to mobilize and combine resources and competences.The lack of awareness among SSEs generally results in increase of financial difficulties, worsening of relationships between SSEs and financial institutions, and decrease public confidence.

3. Literature Review

The last few decades have witnessed several changes in the world economic system: consolidating trend of globalization and liberalization of economies; crumbling barriers to international trade and free movement of capital due to the establishment of World Trade Organization (WTO) and shifts towards market economy in contrast to the control economy or socialist economy. It was believed that market economy will be the 'mantra' for all nations, either developing or under developed, to achieve economic salvation. Destiny smiled and brought the belief to its knee and rethinking process started afresh as to what ought to be the new 'mantra'. Economic downtown indicated further that it is not the big companies, which are only efficient machineries to rotate the economic circle; rather SSE's are the most trusted vehicles that will lead any economy towards salvation.

Literature across the globe suggests adoption of sustainable Corporate Governance Norms within the SSE sector. On the contrary, there are strong arguments also available against introduction of such norms. In the present study we have considered the feasibility of introduction of corporate governance norms in the sector and attempted to develop, on the basis of the findings, sound and practicable solutions.

A lack of good corporate governance may be the reason for the high levels of failure in small and micro enterprises. According to the King III[1] Report in South Africa, corporate governance is essentially about leadership. It is a guideline system that structures the operating and controlling of a business to achieve good business management, good consideration for staff and good relations with trading partners (Smit, 2011). King III state that all entities regardless of the manner and form of incorporation or establishment should embrace corporate governance practices. Although small and micro enterprises are not obligated to implement corporate governance practices, they will reap the benefits thereof by doing so. The concept of corporate governance has in the past decade become increasingly significant and in this regard India is no exception (Kloppers and Kloppers, 2006)[2].

According to Muller (2009)[3] good corporate governance is vital for the development of a healthy and competitive corporate sector. Muller (2009) further states that one of the key benefits of corporate governance to small business includes a better and stronger system of internal controls, accountability, transparency, and an enhanced strategic vision. Through the participation of outside experts the owner is able to focus more on the strategic directions and expansion of the business, than day-to-day operations thus creating the ability to attract better managers and investors (Singh, et.al. 2010)[4].

Abor and Adjasi (2007)[5], agrees that the benefit that accrue from corporate governance practices further assist small business to grow rapidly. This view is confirmed by Jensen (2002)[6], stating that corporate governance is a significant factor in improving economic efficiency and growth. Empirical evidence indicate that good corporate governance practices in small business gives a positive signal to investors, and encourages small businesses and those who own and managed them to achieve their corporate objectives though the more efficient use of resources. Furthermore, applying good corporate governance principles reduces the problems associated with information asymmetry and makes small businesses less risky to invest in (Chatterje, & Harrison, 2006)[7].

The rationale for small and micro enterprises to implement corporate governance practices are (Davies, 2010[8], Davis, 2010[9]; Le Roux, 2010)[10]:

- Good corporate governance pave the way for companies to grow and attract additional investors as alternative to raising capital through borrowing from banks and other financial institution at high cost.
- Sound governance practices lead to improved internal control systems which results in more accountability and higher profitability. The latter is attributed to enhanced controls which minimize the likelihood for fraud losses.
- A corporate governance framework ensures that owners are freed from administrative duties. Conflict among business owners who assume management roles in the organisation would be reduced to a greater extent.

If small and micro enterprises infuse corporate governance structures at an early stage, they will gain experience and instill discipline in the management of the business (Juul, 2006)[11]. Embedding corporate governance practices facilitates small and micro enterprise growth and improved decision making process (Solomon, 2004[12], Solomon, 2005[13]).

According toBruwer and Watkins (2010)[14], the factors that primarilyaffect sustainability, are broken down into macro-economicfactors, micro-economic factors and psychologicalfactors. It is important for small and micro enterprises tobe sustainable, the development to be efficient andessential for enterprises to be based on sound businessprinciples which is entrenched through embedding corporategovernance principles. The weakened currency, volatility of the market and the globalrecession are factors which impacts negatively on smalland micro enterprise sustainability. Financial difficulties,inadequate start-up financing, lack of managementknowledge, lack of accounting knowledge, the underestimationof financial performance measures are alsofactors affecting small and micro enterprise sustainability.

The weak corporate governance of small enterprisesburdened further with the poor availability of importantresources has made the sustainability of these enterprisesextremely vulnerable. To remain competitive in achanging world small enterprise’s must innovate andadopt corporate governance practices so that newdemands can be met and new opportunities grasped (LeRoux, 2010).

Small and micro enterprises however fail due to, amongst other, a lack of managerial and planning skills, ineffective working capital management, an inability to manage the competitive environment, and growth overexpansion (Solomon, 2004)[15]. The success of the business therefore depends crucially on how the business manages and organizes its resources.

Banerjee (2005)[16], states that competence of a firm or of an industry sector is directly related to issues of corporate governance. Poor corporate governance in small and micro enterprises, strained further with insufficient access to key factors such as funding, lack of skills and information have made business susceptible to closure. However, with the introduction of corporate governance in small and micro enterprises the possibility of obtaining funding from banks will improve.

In addition, the foundation of transparency and accountability will be entrenched in their corporate behaviour should corporate governance be applied early. This behaviour of transparency and accountability would also indicate competence and first-class corporate governance, which is a basic foundation for flourishing and well-structured business (Tan and Tan, 2004)[17].

Accessible research reveals that better corporate governance in small and micro enterprises are positively linked to their growth and long term sustainability. Better governance is not a solution to all problems faced by small and micro enterprises, but it is an unquestionably essential element to success (Agrawal, 2004)[18].

4. Objectives

Taking perspicacity to the above views, the present study was undertaken with the objective to analyze the impact of the Corporate Governance attributes on the sustainability of the SSEs in the state of Odisha and to suggest some measures to improve upon the present situation, thereafter.

5. Hypothesis

H_0: Corporate governance has no impact on the sustainability of the SSEs.

6. Research Model

S_{SE} = f(Corporate Governance) = f(Skill and Awareness Level, Efficient Management, Ethical Business Practices, Disclosers and Evaluation)

Putting the relationship in equation: $S_{SSE} = \beta_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4$

Where, S_{SSE} = Sustainability of the Small Scale Enterprises, X_1 = Skill and Awareness Level, X_2 = Efficient Management, X_3 = Ethical Business Practices, X_4 = Disclosers and Evaluation, and B_1, B_2, B_3 and B_4 = Regression coefficient of Factor 1 to Factor 4.

7. Methodology Adopted and Research Background

Sustainability of the organisation and good governance are based on various factors which includes controllable and uncontrollable factors as well as internal and external factors. Through a triangulation study the factors responsible for sustainability and good governance of the SSEs were earmarked and factorized. According to Robert Chambers as cited by Ortiz 2002[19], data triangulation means sharing of information and ideas between and among the participants in the process; i.e., between SSE owners, SSE owners and facilitators, and between facilitators. Data triangulation in selected group discussions included the sharing of ideas and opinions between and among SSE owners, program implementers from the state government officials, NGOs and peoples organizations (POs). The data and information from group discussions and sharing of ideas and opinions among all participants in group discussions were used to validate and further enrich the research results derived from the survey instruments and used to elaborate the prevailing local conditions, problems and issues raised by the respondents.

Table No.: 1: Weightage assigned to Growth Rates

Factors	Maximum Weightage	Factors	Maximum Weightage
Revenue	20	Working Capital	20
Profit	20	No. of Employees	10
Fixed Asset	20	No of Loan availed repaid	10
Growth rate in last 3 FYs	**Weightage**	**Growth rate in last 3 FYs**	**Weightage**
Above 20% per annum	20 / 10	Between 5 to 10% per annum	5 / 3
Between 15 to 20% per annum	15 / 8	Below 5%	2 / 1
Between 10 to 15% per annum	10 / 5	No Growth	0

From the review of various literatures, previous researches and the triangulation study, the presentstudy identifies five variables for analyzing each of the factorsresponsible for good governance, as follows:

1. Skill and Awareness Level
    a. Managerial Skills
    b. Awareness about rules and different acts
    c. Awareness about the personal rights
    d. Awareness about various Government initiatives and schemes
    e. Awareness about activities and initiatives of various banking and financial institutions
2. Efficient Management
    a. Managerial Capabilities to take decisions at proper time
    b. Management of Financial resources and fixed assets
    c. Management of human resources and development of their skill
    d. Management of market demand and customer satisfaction
    e. Management of research and developmental and diversified activities in the future
3. Ethical Business Practices
    a. Provisions of the qualitative products to customers and appropriate quantities of the products

b. Necessary provisions for manpower in the organisations like profit sharing bonus, necessary social security measures and implementation of other ideational framework which related to labour laws, traditional norms and work-place conventions that constitute the `super-structure' of the social system.

c. Ethical financial practices like appropriate uses of financial resources, non-fungibility uses of loan amounts.

d. Proper tax (income tax, corporate taxes, sales tax, custom duties, VAT etc.) payment

e. CSR and Social Services

4. Evaluation and Disclosers

   a. Periodic evaluation of the performance of the organisation as well as the management

   b. General body meetings of the stakeholders

   c. Necessary audit (internal as well as external) activities

   d. Preparation of Financial reports for taxation and other practices

   e. Preparation of reports for other purposes

In its totality, the data gathering techniques used in this study and the application of corresponding procedures were able to identify some indicators of good governance in SSE's operations, experiences and perceptions. Moreover, the triangulation study was able to generate a series of factors for the sustainability of the SSEs in the state of Odisha which were anchored on the prevailing local economic conditions and primary inputs from the sampled units. Each of the factors were provided with the maximum weightage, from a total weightage of 100, as per their importance (Table 1). Again, each of the factors were assigned weightage with its growth percentage as follows:

The study sampled out, as per the convenience of the researcher and randomly, 40 registered SSEs under various District Industries Centers (DICs) of the state of Odisha which had completed 10 years of business life and must have profit for last five years. The owners or the CEOs of the SSEs were interviewed a questionnaire about their performances and about the factors related to the corporate governance. The corporate governance was judged through four factors and each factor has been refereed by five variables represented by five questions with a five-scale Likert scale responses, viz., Very much satisfactory, Satisfactory, Workable, Dissatisfactory. Very much Dissatisfactory. The second part of the questionnaire dealt with operational parameters of the SSEs. The respondents are requested to provide various operational data of their respective organisations for 5 FYs preceding to the FY 2015-16. Various data analysis tools were used by the study subsequently to test the hypothesis set forth for the present study.

8. Sustainability And Corporate Governance – An Analysis

The study is based on the null hypothesis to test that the corporate governance has no impact on the sustainability of the SSEs. The responses collected from the questionnaires were analysed and presented in the following Table with the inferences followed after.

Table No. 2: Descriptive Statistics of Various Parameters of Corporate Governance

Parameters / Variables	Min	Max	Mean	SD	Variance	SE
Awareness about rules and different acts	2	5	3.43	.781	.610	.123
Awareness about the personal rights	3	5	3.72	.716	.512	.113
Awareness about various Government initiatives and schemes	2	4	3.45	.597	.356	.094
Awareness about activities and initiatives of various banks and FIs	3	5	3.85	.700	.490	.111
Factor – 1: Skill And Awareness Level	**3.00**	**4.50**	**3.6125**	**.40012**	**.160**	**.06326**
Managerial Capabilities to take decisions at proper time	1	5	3.45	1.085	1.177	.172
Management of Financial resources and fixed assets	3	5	3.62	.705	.497	.111
Management of human resources and development of their skill	3	5	4.00	.679	.462	.107

Management of demand and customer satisfaction	2	5	3.40	.778	.605	.123
Management of R&D and diversified activities in the future	1	4	2.80	.939	.882	.148
Factor – 2: Efficient Management	**2.80**	**4.00**	**3.4550**	**.31700**	**.100**	**.05012**
Provisions of qualitative and appropriate quantities of product to customers	3	5	4.30	.648	.421	.103
Necessary provisions for manpower	2	5	3.10	1.057	1.118	.167
Ethical financial practices	3	5	4.33	.656	.430	.104
Proper tax Payment	2	5	3.65	.975	.951	.154
Social Services and CSR	2	4	2.60	.778	.605	.123
Factor – 3: Ethical Business Practices	**2.80**	**4.60**	**3.5950**	**.47174**	**.223**	**.07459**
Periodic evaluation of the performance	2	4	3.20	.853	.728	.135
General body meetings of the stakeholders	2	5	3.25	.981	.962	.155
Necessary audit (internal as well as external) activities	3	5	4.15	.802	.644	.127
Preparation of Financial reports for taxation and other practices	3	5	4.40	.744	.554	.118
Preparation of Bank reports in case of organisations received loans	2	4	2.80	.823	.677	.130
Factor – 4:Evaluation And Disclosers	**2.60**	**4.40**	**3.5600**	**.40560**	**.165**	**.06413**

Source: Primary data collected in the year 2015 and analysis thereafter

1. The mean score of each variable shows that the managerial skill and awareness level is 3.6125 with a standard deviation score of 0.40012 and variance as 0.06326. This implies that the SSEs under study are still around the average level of managerial skill and awareness. They are with a higher awareness level with respect to their personal rights and with respect to various schemes and facilities provided by the bank and other FIs. As the respondents have a good relationship with the banks and FIs for last few years, they are more aware about the schemes with the bank rather than of the state government. The

legal illiteracy is also being handicapped these respondents with a lesser degree of managerial skill.

2. The lesser managerial skill and awareness level also affected the managerial efficiency (Mean Score – 3.4550 and SD = 0.100) with respect to the organizational operation. The respondents showed a better managerial skill with respect to the management of human resources as the workers or employees engaged are also less literate and informed about their rights. They showed a better control on the financial resources and fixed assets. The profitability and productivity of these firms also affected through the untimely decision making and handling of marketing activities. The most serious impairment with the respondents is the management of future through the R&D activities and diversification of products, market and business.
3. With respect to the ethical business practices, the respondents scored a higher mean score (3.5950) and SD = 0.223. There is a higher variance of opinions among them. They are very much honest with respect to the quality and quantity of the product at the time of sale. They are also exhibited a higher degree of ethical practices with respect to the financial matters (Mean score – 4.33) like loan uses, payment to the suppliers, loan repayments etc. and tax payments (Mean score – 3.65). But the social service and CSR activities showed a low mean score which is only 2.60.
4. The average mean score scores by the respondents with respect to the fourth factor, evaluation and disclosures, is 3.56 with SD as 0.165 which indicated a lesser variance in opinions of the respondents. The respondents are very much particular with respect to the audit activities (Mean score – 4.15) and preparation of financial reports for taxation purposes (Mean score – 4.40) whereas they showed carelessness with respect to the preparation of Bank reports in case of organisations received loans (Mean score – 2.80). They also showed a lesser interest about the periodic performance evaluation as they termed it as expensive and hamper their trade secrecy. One of the other most important factor which limits the uses of these attributes is the cost factor and the availability of the trained personnel.

Table No – 03: Chi-Square Test for Corporate Governance Factors

Parameters	Factor-1	Factor-2	Factor-3	Factor -4
Chi-Square	10.050[a]	11.800[a]	15.500[b]	20.500[b]
Df	6	6	9	9
Asymp. Sig. (at 5%)	.123	.067	.078	.015
a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 5.7. b. 10 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 4.0.				

Source: Primary data collected in the year 2015 and analysis thereafter

The Chi-square indicated that all the factors of corporate governance except the first factor (managerial skill and awareness) is not significant in comparison to the expected mean. Thus it may be concluded that the SSEs under study showed a lesser degree of good corporate governance in their operations. The factors like illiteracy, lack of awareness and inability to hire trained managers etc. impaired the SSEs with respect to the use of managerial skill and abilities.

Table No –04: Descriptive Statistics for Sustainability

Parameters	Max. Weightage assigned	Min	Max	Mean	SD	SE
Revenue	20	2	15	7.70	3.736	.591
Profit	20	2	15	7.23	3.378	.534
Fixed Asset	20	2	15	6.57	3.046	.482
Working Capital	20	2	15	7.20	3.368	.533
No. of Employees	10	1	10	4.80	2.483	.393
Loan Availed	10	1	10	4.28	2.242	.354
Sustainability	**100**	**10**	**68**	**37.78**	**15.300**	**2.419**

Source: Primary data collected in the year 2015 and analysis thereafter

The respondents are requested to provide various operational data of their respective organisations for 5 FYs preceding to the FY 2015-16. Then the growth rate of the last three FYs were calculated and averaged and appropriate weightage has been assigned and finally the figures were tabled, calculated and presented in the table no. 04.The overall sustainability percentage is only 37.78% which is any count is very low. The low level of sustainability may be attributed to the low level of corporate governance practices by the SSEs.

The correlation between overall sustainability and Managerial Skill and Awareness (Factor 1) was 0.198 (p =0.221); the correlation between overall sustainability and Managerial Efficiency (Factor 2) was 0.321 (p =0.044); the correlation between overall sustainabilityand Ethical Practices (Factor 3) was – 0.100, a negative correlation, (p =0.541), and the correlation between overall sustainability and Evaluation and Disclosures (Factor 4) was – 0.164 (p =0.311) (Table no. 6). Therefore, the study indicated that the correlation between overall sustainability and Managerial Skill and Awareness orManagerial Efficiency was higher than that between overall sustainability and Ethical Practices or Evaluation and Disclosures. These results revealed support for hypothesis that there seems to be a moderately low correlation between overall sustainability and some of the selected attributes of Corporate Governance.

Table No. 05: Correlation among Sustainability and Various Factors of Corporate Governance (Significance - 2-tailed, at 5%)

Factor		**F-1**	**F-2**	**F-3**	**F-4**	**Sustainability**
Factor-1	Correlation	1.000	.132	.234	.313	**.198**
	Significance	-	.417	.146	.049	.221
Factor-2	Correlation	.132	1.000	.153	.265	**.321**
	Significance	.417	-	.347	.099	.044
Factor-3	Correlation	.234	.153	1.000	.203	**-.100**
	Significance	.146	.347	-	.210	.541
Factor-4	Correlation	.313	.265	.203	1.000	**-.164**
	Significance	.049	.099	.210	-	.311
Sustainability	Correlation	.198	.321	-.100	-.164	1.000
	Significance	.221	.044	.541	.311	-

Source: Primary data collected in the year 2015 and analysis thereafter

In order to further reveal support for hypothesis, the factors that influenced SSEs' overall levels of sustainability, the four orthogonal factors were used in a multiple regression analysis. The multiple regression procedure was employed because it provided the most accurate interpretation of the independent variables. The four independent variables were expressed in terms of the standardized factor scores (beta coefficients). The significant factors that remained in the regression equation were shown in order of importance based on the beta coefficients. The dependent variable, SSEs' overall levels of sustainability, was measured on a 5-point Likert-type scale and was used as a surrogate indicator of SSEs' evaluation of the perception with respect to the corporate governance.

Table No.06: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df_1	df_2	Sig. F Change
1	.502[a]	.252	.167	13.964	.252	2.954	4	35	.033

a. Predictors: (Constant), Factor -4, Factor-3, Factor-2, Factor-1

B. Dependent Variable: Sustainability

Source: Primary data collected in the year 2015 and analysis thereafter

Table No.07: ANOVA[a]

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	2303.837	4	575.959	2.954	.033[b]
Residual	6825.138	35	195.004		
Total	9128.975	39			

A. Dependent Variable: Sustainability

B. Predictors: (Constant), Factor -1 To Factor -4

Source: Primary data collected in the year 2015 and analysis thereafter

Table No. 08: Coefficients (Dependent Variable: SUSTAINABILITY)

Parameters	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-4.915	32.487	-	-.151	.038
FACTOR-1	10.912	5.989	.285	1.822	.037
FACTOR-2	19.014	7.360	.394	2.583	.014
FACTOR-3	-5.211	4.947	-.161	-1.053	.0299
FACTOR-4	-12.272	6.015	-.325	-2.040	.049

Source: Primary data collected in the year 2015 and analysis thereafter

Table 06, 07 and 08 showed the results of the regression analysis. To predict the goodness-of fit of the regression model, the multiple correlation coefficient (R), coefficient of determination (R^2), and F ratio were examined. First, the R of independent variables (four factors, X_1 to X_4) on the dependent variable (overall level of Sustainability, or S_{SSE}) is 0.502, which showed that the SSEs had positive and high levels of sustainability with the four dimensions. Second, the R^2 is 0.167, suggesting that more than 17% of the variation of SSEs' overall sustainability was explained by the four factors.

Last, the F ratio, which explained whether the results of the regression model could have occurred by chance, had a value of 2.954 ($p = 0.033$) and was considered significant. The regression model achieved a satisfactory level of goodness-of-fit in predicting the variance of SSEs' overall levels of sustainabilityin relation to the four factors, as measured by the above mentioned R, R^2, and F ratio. In other words, at least one of the four factors were important in contributing to SSEs' overall levels of sustainability.

In the regression analysis, the beta coefficients could be used to explain the relative importance of the four dimensions (independent variables) in contributing to the variance in SSEs' overall levels of sustainability (dependent variable). As far as the relative importance of the four corporate governance dimensions is concerned, Factor 2 (Managerial Efficiency, $B_2 = 19.014$, $p = 0.037$) carried the heaviest weight for SSEs' overall sustainability, followed by Factor 1

(Culture Attraction, B_1 = 10.912, p = 0.038), Factor 3 (Ethical Practices, B_3 = -5.211, p = 0.0299), and Factor 4 (Evaluation and Disclosure, B_4 = -12.272, p = 0.049). The results showed that a one-unit increase in sustainability with the Managerial Efficiency factor would lead to a 10.912 unit increase in SSEs' overall level of sustainability, other variables being held constant.

In conclusion, all underlying dimensions are significant. Thus, the results of multiple regression analysis reject the null hypothesis under study, that there is no relationship between the corporate governance attributes and the overalllevel of sustainability of SSEs. So, there is a relationship, which is what we expected.

The negative scores derived from the factor -3 (Ethical Practices) and Factor – 4 (Evaluation and Disclosure) has not denies the impact of Corporate Governance on the sustainability of the SSEs. But the negative score is the outcome of the higher negative responses to various attributes like, "Preparation of Bank reports in case of organisations received loans", "Social Services and CSR", "Periodic evaluation of the performance", "Necessary Ethical provisions for manpower", which has mean score of 2.80, 2.60, 3.20, and 3.10 respectively (Table No.02). This can be also substantiate from the fact revealed by the study that the average sustainability index of the sampled SSEs was 37.78% which is low in any count though the organisations under study have earned profit for last five financial years and survived for more than 10 years.

9. Challenges and Suggestions

It is established from the present study that the sustainability of the SSEs are dependent on the adaptation of the Corporate Governance attributes. SSEowners and managers arehowever not familiar with corporate governance; hence amajority of SSE do not complywith corporate governance principles which are describedas 'good business practices'. As indicated,a limited degree of intuitive governance is appliedby owners' and managers whereby the importance of some elements of good governance are recognised, i.e.policies and procedures. Based on the data collected; it isfurther evident that SSE owners and managers do not understand the importance of corporategovernance practices which to a limited degreemaps to these enterprises not complying with governancepractices. By and large this can also be mapped toenterprise owners and managers limited knowledge ofthe meaning of governance. Only a small number of respondents actually understood what corporate governanceentailed. From those enterprise owners managers that dohave the knowledge, there is little belief that corporategovernance can contribute to an improvement in theorganisation's performance were performance encompassessustainability and growth as evident from theliterature study. Cost and a lack of knowledge were found to be themain obstacles encountered in following good businesspractices.

Stakeholders expect corporate governance to provide wealth maximization for shareholders, to fulfilobligations to a broader range of stakeholders including employees, customers, suppliers and community, and toprovide management control as well as management empowerment. The expectations for responsibility toshareholders and for management empowerment are effectively embedded in SSEs. However SSEs are facing asignificant challenge in relation to incorporation of responsibility to an expanded group of stakeholders. WhileSSEs have emerged as a dominant economic force, there are significant unrealized potential benefits available bysuccessfully addressing this specific aspect of corporate governance and its implementation.

One of the major characteristics of modern corporations is the separation of ownership and management. However, unlike large corporations, most SSEs have kept the close ownership-management relationship as aninherent tradition. The combined ownership-management function has a positive side in relation to governance inSSEs, that is, accountability to owners and empowerment of managers are embedded in the organizationalstructure. The result is that governance is more efficient in SSEs as it is without the "agency problem" that exists inlarger organizations. SSEs would be well advised to direct more attention and resources to fulfil the responsibilitiesto, and improve relationships with, stakeholders. The negative side of the combined ownership-management function is that SSEs may not wish to haveformal boards of governors or may not wish to bring in outside directors to their boards as they want to maintaintight ownership control. However, in today's competitive business environment, this attitude may set barriers togenerating new ideas, developing better strategies and taking more innovative approaches; in the worst scenario, itmay ultimately threat the very survival of the business due to the loss of its competitiveness.

This presents a very real challenge. How can SSEs take real advantage of the benefits arising from the inherent organizational structure in corporate governance and at the same time enhance the board formation toembrace constantly changing business environment? It is not only a matter of how to balance the above-mentionedpositive and negative effects but also an experiment on how to advance SSE governance to a new level with greatercommitment to a wider range of stakeholders. SSE ownersare concerned about losing the flexibility which is one of their greatest strengths. Dissemination of the operationalbenefits of sound governance to SSEs in relation to increased capacity to engage in new business and to implementstrategic change is at less than optimum levels.

Growth and development is based on the ability to findmanagement solutions, where the business makes the most of the owner-manager's invaluable knowledge andcommitment and at the same time is reinforced by supplementing it with relevant competences and qualifications. It is therefore recommended the followings to take on this challenge.

1. A succession can be life threatening for the business if not carefully planned. The succession (generation change) plan is meant for both the new owner and new management too and this issue should be handled carefully and measures to be taken basing on -
    a. The importance of the owner-managers reaches beyond management issues, the personal commitment and owner-manager's skills as entrepreneur
    b. Should be planned and maybe carried through while the owner-manager is still alive.
    c. Risk of conflicts between owners not involved in the management and owners involved in the management
    d. Need for more formal organisation structures
    e. Find confidence-building measures through relationship with the employees based on mutual trust
2. Legislation cannot provide against inefficiency, but it can create an appropriate framework for the organizational structure. Management can enhance efficiency and can create organisational structures that fit the company and which can handle changes,

development, growth and different challenges.In the beginning the owner-manager is the central person who possesses all the necessary skills and then necessary knowledge blocks can be introduced basing on its cost of acquisition.

3. With a growth of the organisation over time, the informal governance structures have to be replaced by more formal governance structures and the owners' qualifications and business skills have to be complemented by qualifications and business skills from others than the owners.
4. Need for a second in command though the recruitment of the best executive is difficult it is hard to prevent them from leaving. But a new breed of managers can be groomed. The problem is the delegation and the owner-managers' lack of respect of the agreements of delegation and sphere of authority.

Other suggestions to improve upon the present state of affairs to make corporate governance as a part of the day for the SSEs are as follows:

- Create a balanced board and invite non-executive directors who would add value to the board (replace the board of director with an advisory board for SSEs that are not legally required to establish a board of director).
- Non-executive directors play an important role in ensuring integrity of the financial data provided to the board and to protecting owners' interest. They also exercise control over executive management and reduce the risks arising from poor management practices or gross negligence.
- Introduction of a Code of Business Conduct.
- Raising a suitable corporate culture with a focus on benefits of corporate governance
- Development of senior management's administrative and technical skills particularly in areas such as strategic planning and leadership.
- Create clear organization charts and developing a way for effective delegation of authority and responsibility.
- Establish independent internal audit function (or employ an internal auditor based on the size of the organization).
- Create job descriptions, which establish clear responsibilities and reporting lines.

- It is important to invest more in the knowledge of the system of governance of small and medium industries (systematically expanding the scope of the studies about the PMI) which are actually very important in the economic issues.
- It has become also necessary to evaluate the possible correlation between the Corporate Governance and the SSEsregarding the performance evaluation. Subsequently, evaluate the contributions of the corporate governance principles inupgrading the SSEs.
- It would be also relevant to identify the relationship between the good governance modelsproposed by experts and the integrated approaches identified in the SMEs as per their need and applicability.

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