The 7th International Conference on Economics and Social Sciences
Exploring Global Perspectives:
The Future of Economics and Social Sciences
June 13-14, 2024
Bucharest University of Economic Studies, Romania

SMEs Representatives' Perceptions of Corporate Governance-Performance Relationship. Evidence from an Emerging Economy

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Abstract

Considering the new European and international sustainability frameworks and standards, along with the legal requirements and social expectations of the national government, SMEs are under pressure to adopt enhanced corporate governance policies and practices, facilitating the shift to a sustainable economy. Hence, the main purpose of this study is to identify and debate the SME's representatives' perceptions regarding the corporate governance – performance relationship, examining the relevance of adopting and applying specific management responsibilities for the present and future entrepreneurial pursuits. Approached as quantitative research, a questionnaire is addressed to management, operational personnel, and private investors. A total of 130 questionnaires are analysed to test the research hypotheses, through descriptive and frequency statistics, correlation matrix, and linear regression analysis. The main findings indicate that SMEs' representatives do not disregard the necessity of forming a Supervisory Board, considering the requirement related to Board members' independence as being extremely important. Furthermore, a clear separation of duties between Board and executive management, together with a significant percentage of Board members' competence, knowledge, and experience, and Board gender diversity are recognised as opportunities to strengthen the businesses' performance. The findings imply that improvement of corporate governance policies and practices offers new knowledge to SMEs in an emerging country. Consequently, this study may represent a valuable resource in developing strategies and policies for sustainable economy and business environment, for government and investors, equally.

Keywords: corporate governance, performance, SMEs, emerging economy, management responsibilities.

JEL Classification: G34, M41.

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1. Introduction

According to Jiang et al. (2023), the expansion of the global socio-economic system is directly and positively impacted by small and medium-sized enterprises (SMEs). Regarding the implementation of sustainable business practices, SMEs usually face a variety of challenges. Among these challenges may be counted a lack of capital, deficiency of technical expertise, and limited access to global markets and entrepreneurial information. Having regard to those considerations, this study's objective consists in examine how SMEs representatives perceive the connection between corporate governance and performance.

In the light of government's legal requirements and social expectations, corporate governance mechanisms stand out as a key element for a clearer understanding of SMEs long-term development horizons (Nasrallah & El Khoury, 2021). In this research, the attention is drawn to how corporate governance practices influence the performance of SMEs. Based on the findings, there several recommendations are formulated for SMEs' representatives, to focus on developing strategies and policies for the integration in a sustainable business environment. Thus, corporate governance mechanisms may lead to Romanian SMEs notoriety and their activity development in a resilient background.

This paper performs research based on a quantitative analysis, using questionnaire as the main research method, in the sample being included Romanian SMEs' representatives who achieve their business goals in a dynamic economic environment. All respondents have extensive professional expertise, carrying out activities in financial business fields, such as Accounting, Audit, Tax advisory, Payroll. According to the results, Romanian SMEs may promote corporate governance practices as well as corporate social responsibility, contributing to a more resilient and sustainable socioeconomic development.

This study is structured as follows: Section 2 covers the problem statement, standing out through a review of scientifically recognised publications regarding the studied topic, while Section 3 is an extended presentation of the research aim, including hypothesis development. Section 4 presents the research methodology and Section 5 summarises the results. Section 6 is intended for conclusions.

2. Literature Review

In the last few years, globalisation has brought about paradigmatic shifts that have had a significant impact on the nature of competition faced by businesses, as well as their performance. These shifts include international conflicts, a worsening of the world health crisis, and a greater emphasis on digitalisation. A high level of competition in the business environment represents a threat for companies, especially for small and medium-sized enterprises (SMEs), due to their limited resources from a managerial and financial viewpoint. Hence, it is crucial for SMEs to strategically develop their competencies to manage entrepreneurial changes and focus on new horizons for sustainable business opportunities (Adomako et al., 2022; Nasrallah & El Khoury, 2021; Sarango-Lalangui et al., 2023).

In the entrepreneurial background, corporate governance is understood as a challenge, especially in the light of agency theory, because of the connections established between owners and managers, which give rise to the agency problems. However, it is highlighted that SMEs should be concerned about corporate governance mechanisms, even if it is considered that these enterprises do not face agency problems, because they do not rely on the resources at the macroeconomic level (Wen et al., 2023; Adrian & Wright, 2018).

In Romania, regulations addressed to SMEs are stipulated in Law no. 346 (Romanian Parliament, 2004), while corporate governance policies and practices are covered in the Corporate Governance Code issued by the Bucharest Stock Exchange, applied for companies that are listed on the capital market (Bucharest Stock Exchange, 2015). Consequently, this study is approached to fill the gap in the corporate governance and SMEs literature, given the circumstances of the necessity for corporate governance regulations designed in accordance with SMEs' specifics.

According to Wen et al. (2023), there is a real push for corporate governance codes to be fully implemented, particularly for SMEs. This is primarily due to the fact that effective corporate governance may boost the SMEs' sector by introducing tighter internal controls, improved operational procedures, and more opportunities for international expansion. Similar persuasions are suggested by Issa and Abbaszadeh (2023). The authors highlight that corporate governance has a key role in protecting shareholders as well as maximising their long-term value creation.

This research is performed in line with prior literature (Di Bella & Al-Fayoumi, 2015; Jiang et al., 2023; Nasrallah & El Khoury, 2021; Xiao & Shailer, 2022) that approach the topic of corporate governance and corporate social responsibility in the light of sustainable development, using questionnaires to collect the data and quantitative methods for analysis.

Permatasari and Gunawan (2023) draw attention to sustainability policies for SMEs, underlying the significance of establishing laws and regulations that promote corporate social responsibility in SMEs to achieve sustainable development goals. Nasrallah and El Khoury (2021) examine corporate governance as a predictor of SMEs' financial performance. The authors analyse developing countries and show that an improvement in corporate governance practices determines an increase in financial performance.

Furthermore, a considerable interest in scientific literature is for the banking industry. For example, Issa and Abbaszadeh (2023) find that corporate governance positively influences the banks' agility and their reaction to the dynamic business environment. El Sayad and Diab (2022) present that banks may focus on employees' experience and CSR training programmes, while Di Bella and Al-Fayoumi (2015) emphasise that stakeholders have a positive attitude regarding corporate social responsibility.

The originality of this analysis is ensured by focusing on Romania, an emerging economy where there is a lack of corporate governance regulations stipulated for SMEs. Thus, this research may consist of a basis for comparison both with other emerging and developed countries.

3. Research Hypothesis

This study aims to examine the influence exerted by management responsibilities on SMEs' performance, debated in the light of Romanian SMEs representatives' perceptions. Management responsibilities are understood as an integrated part of corporate governance mechanisms. Hence, this study seeks to provide insights related to how the corporate governance-performance relationship is perceived by SMEs' business environment in an emerging economy, considering the managerial duties. The research perspectives may be a complementary element in the previous literature, a body of knowledge in the relationship between corporate governance and performance reflected based on entrepreneurial representatives' perceptions.

The scientific literature (Nasrallah & El Khoury, 2021; Sarango-Lalangui et al., 2023) covers key characteristics of SMEs in the background of sustainable development and corporate governance implications, with insights regarding socioeconomic patterns. Prior studies highlight the need for research to consider the perspectives of SMEs' representatives to improve strategic agility and performance (Adomako et al., 2022), emphasising the mechanisms such as Board of directors, disclosure and transparency (Wen et al., 2023) as performance determinants. Consequently, the research hypothesis is developed as follows: *RH1. SMEs representatives' perceptions of the relationship between corporate governance and performance are positively and significantly influenced by management responsibilities.*

The results contribute to the scientific literature by providing sustainable entrepreneurial development with relevant information about SMEs representatives' perceptions of how corporate governance practices influence the organisational aspects in this specific cluster of companies.

4. Research Methods

4.1 Data Collection

The primary data for this study are gathered based on a questionnaire and the validity of the research hypothesis is established through a quantitative approach. The questionnaire is a suitable and reliable method, which allows to investigate behavioural patterns from many respondents who have similar interests and viewpoints regarding a business activity (Caraiani et al., 2023; Issa & Abbaszadeh, 2023; Wen et al., 2023).

Figure 1 presents the questionnaire summary, involving several defining elements for questionnaire design, participants' characteristics, together with the main sections covering questions addressed. In order to draw a valid overview of the findings, *the first section* includes profile information from respondents, while a synopsis of management responsibilities' information is provided in *the second section*.

Figure 1. Questionnaire structure as a basis for the conceptual model
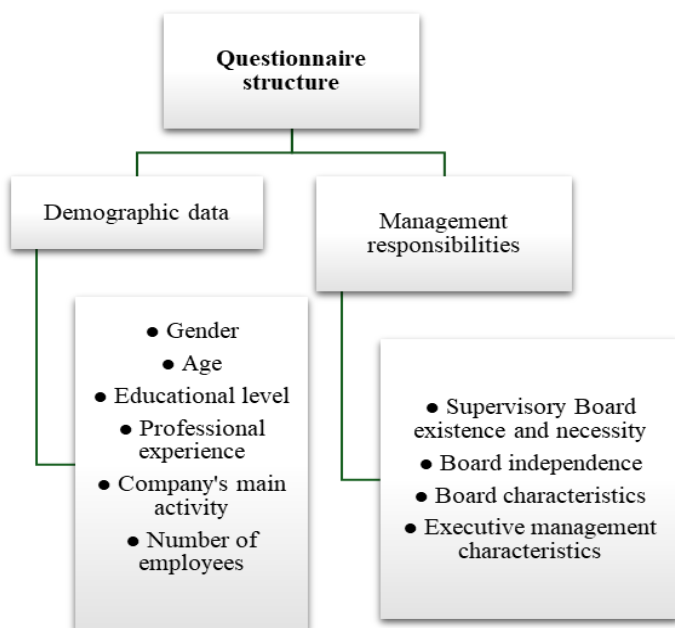
Source: authors' own research adapted from Caraiani et al. (2023)
and Xiao and Shailer (2022).

The data were collected in the time frame between February and March 2024. The questionnaire has been designed in a digital form and then sent to respondents by e-mail. The sample consists of management, operational personnel, and private investors, with an extensive experience in business management, Accounting, Audit, or Tax advisory services, most of them being part of professional organisations, such as The Chamber of Tax Consultants from Romania and The Body of Expert and Licenced Accountants of Romania.

4.2 Research Variables and Regression Analysis

Table 1 summarises the variables included in the statistical analysis, complemented with a description and measurement of each variable. The dependent variable is SMEs' performance (SMES_PERF), constructed based on the impact exerted by financial and corporate governance specifics in SMEs' performance, such as the transparency in financial statements and information disclosure, executive management skills and experience, independent Board members, the policies related to forecasts, dividend, corporate governance and corporate social responsibility, risk management, internal control, audit committee. The respondents rated characteristics on a 5 Likert scale (1 = not at all important; 5 = extremely important), and then the average value for the variable measurement is computed.

Table 1. Variables used for testing the research hypothesis

Variables	Description	Measurement
Dependent		
SMES_PERF	SMESs' performance rated based on corporate governance and financial performance characteristics	Average value based on 5 Likert scale
Independents		
BOARD_EXISTENCE	Supervisory Board existence in SMEs	2 - Yes 1 - No 0 – I do not know
BOARD_NECESSITY	Board necessity in SMEs	5 Likert scale
BOARD INDEPENDENCE	Board independence in SMEs	5 Likert scale
BOARD_CHARACTERISTICS	Board characteristics rated on 5 Likert scale	Average value based on 5 Likert scale
EXEC_CHARACTERISTICS	Executive management characteristics rated on 5 Likert scale	Average value based on 5 Likert scale

Source: authors' own research adapted from Caraiani et al. (2023).

The independent variables in Table 1 cover an in-depth view of management responsibilities, representing corporate governance mechanisms, measured both by 5 Likert scale average values, and through a dummy variable. For example, in the independent variables' list are included the existence (BOARD EXISTENCE) and necessity (BOARD_NECESSITY) of the Board. Furthermore, perceptions related to Board independence (BOARD_INDEPENDENCE) in Romanian SMEs are considered. Likewise, there are rated several Board characteristics (BOARD_CHARACTERISTICS), such as clear separation of duties between the Board and executive management, gender diversity, independence of nonexecutive Board members, Board members' competence, knowledge, and experience. Moreover, there are highlighted the executive management characteristics (EXEC_CHARACTERISTICS), including effective decisions, knowledge, and experience, setting up business plans and policies, executive management motivation based on performance indicators, and decision-making transparency. The selection of variables is in line with prior studies conducted by Issa and Abbaszadeh (2023), Wen et al. (2023), Xiao and Shailer (2022), and Nasrallah and El Khoury (2021).

Regression analysis is performed to determine the corporate governance-performance relationship in the SMEs representatives' accepted meaning. Hence, the following linear regression equation is used to test the research hypothesis:

$$SMES\_PERF_i = \alpha_0 + \alpha_1 * BOARD\_EXISTENCE_i + \alpha_2 * BOARD\_NECESSITY_i + \alpha_3 * BOARD\_INDEPENDENCE_i + \alpha_4 * BOARD\_CHARACTERISTICS_i + \alpha_5 * EXEC\_CHARACTERISTICS_i + \varepsilon_i, \tag{1}$$

where $SMES\_PERF_i$ represents the SMEs' performance, measured by financial and corporate governance characteristics, α_0 is the constant, α_1 to α_5 are coefficients associated with management responsibilities, while ε_i is the error term.

5. Findings

5.1 Descriptive Statistics

Respondents appear to be generally well distributed by demographical data. The summary of results shows that more than 60% of the respondents are women. Furthermore, the dominating age rank is between 40 and 49 years old, respondents having more than 20 years of professional experience. Likewise, more than 80% of the companies carry out activities in services field, providing Accounting, Auditing, or Tax advisory services and have less than 9 employees, being included in the microenterprises category, according to the Law no. 346 (Romanian Parliament, 2004). Table 2 presents descriptive statistics.

Table 2. Descriptive statistics

Variables	Mean	Std. Dev.	Min.	Max.	Med.	Skewness	Kurtosis
SMES_PERF	3.81	0.90	1.00	5.00	3.86	-0.64	0.24
BOARD_EXISTENCE	0.82	0.98	0.00	2.00	0.00	0.36	-1.89
BOARD_NECESSITY	3.07	1.38	1.00	5.00	3.00	-0.09	-1.18
BOARD_INDEPENDENCE	3.79	1.21	1.00	5.00	4.00	-0.83	-0.15
BOARD_CHARACTERISTICS	3.79	1.01	1.00	5.00	4.00	-1.15	1.26
EXEC_CHARACTERISTICS	4.38	0.62	1.00	5.00	4.44	-1.94	6.53

Source: authors' own research.

The overall top characteristics rated by respondents pertain, first, to executive management (mean 4.38), where knowledge and experience, effective decisions in managing activities, transparency in decision making, assistance provided to staff members in carrying out their duties, designing corporate governance guidelines, and ensuring their successful implementation within the company could be mentioned. Second, respondents draw attention to Board independence (mean 3.79) and the snapshot of Board characteristics, including gender diversity (mean 3.79). Likewise, respondents recognise Board necessity in Romanian SMEs.

Similarly to Wen et al. (2023), to evaluate univariate analysis, Skewness and Kurtosis indices are used. The indices' results were both within the advised ranges between -3.00 and 3.00 (for Skewness) and between -8.00 and 8.00 (for Kurtosis), respectively.

5.2 Reliability and Correlation Analysis

In line with Issa and Abbaszadeh (2023) and Wen et al. (2023), Cronbach's Alpha is used to measure the reliability of the constructs. The results of the tests performed, as shown in Table 3, emphasise that Alpha values are satisfactorily over the minimal cutoff of 0.70, indicating the internal consistency of scales employed to measure the constructs. Given the Cronbach's Alpha estimate of 0.748 to 0.951, it is considered that the questionnaire in this research has a suitable internal structure.

Table 3. The reliability and validity of research findings

Cronbach's Alpha	Cronbach's Alpha Based on Standardised Items	N of items
0.794	0.800	6

Source: authors' own research.

The correlation between the variables is measured using the Pearson coefficient. The bivariate correlation analysis is shown in Table 4. In accordance with Wen et al. (2023), the findings demonstrate that multicollinearity is minimised because the links between independent variables do not exceed the 0.8 threshold.

Table 4. Bivariate correlation analysis

	1	2	3	4	5	6
SMES_PERF	1	0.326***	0.582***	0.550***	0.668***	0.465***
BOARD_EXISTENCE	0.326***	1	0.568**	0.126	0.173**	0.115
BOARD_NECESSITY	0.582***	0.568***	1	0.400***	0.462***	0.280***
BOARD_INDEPENDENCE	0.550***	0.126	0.400***	1	0.623***	0.249***
BOARD_CHARACTERISTICS	0.668***	0.173**	0.462***	0.623***	1	0.418***
EXEC_CHARACTERISTICS	0.645***	0.115	0.280***	0.249***	0.418***	1

Note: *** $p<0.01$, ** $p<0.05$.
Source: authors' own research.

5.3 Regression Analysis

Regression estimation is performed to test the research hypothesis, the results being summarised in Table 5. Linear regression analysis highlights that there is a positive and significant association between corporate governance variables reflecting management responsibilities, excepting for Board existence. For instance, the coefficient for BOARD_NECESSITY is 0.252, with a p-value of 0.002, indicating a positive and significant impact of Board necessity on the Romanian SMEs' performance. Similarly, the coefficient for BOARD_INDEPENDENCE suggests a positive association between independent members in the Board and performance.

Similarly to Pongelli et al. (2023), potential multicollinearity is checked by calculating Variance Inflation Factors (VIFs), whose values are between 1.227 and 1.983. All VIFs are below the generally advised cutoff of 5, indicating that multicollinearity is not a significant issue in this research.

Table 5. Linear regression analysis

Independent variables	Dependent variable: SMES_PERF	VIF
BOARD_EXISTENCE	0.078 (0.268)	1.508
BOARD_NECESSITY	0.252*** (0.002)	1.927
BOARD_INDEPENDENCE	0.173** (0.022)	1.692
BOARD_CHARACTERISTICS	0.348*** (0.000)	1.983
EXEC_CHARACTERISTICS	0.197*** (0.002)	1.227
Observations	130	
R-Squared	0.592	
F-stat (Sig.)	35.969***	
Durbin-Watson	1.891	

Note: *** $p<0.01$, ** $p<0.05$
Source: authors' own research.

Moreover, BOARD_CHARACTERISTICS are positively related to SMEs' performance, at the 1% level of significance. These results suggest that SMEs' may be focused on a clear separation of duties between the Board and the executive management, the Board gender diversity, knowledge, and independence of nonexecutive Board members, together with Board experience, to achieve performance. These findings are in line with Pongelli et al. (2023) and Wen et al. (2023). Likewise, Romanian SMEs' representatives may be aware of executive management key characteristics (EXEC_CHARACTERISTICS). The positive, but not statistically significant influence exerted by BOARD_EXISTENCE may be attributed to the fact that 58.5% of the SMEs in the sample have no established Boards in their internal structures.

6. Conclusions

This paper examines the impact of corporate governance mechanisms on the SMEs' performance in an emerging country. The primary data are gathered based on questionnaires addressed to the representatives of SMEs. Using descriptive analysis and econometric estimation, it is documented that corporate governance practices have a positive relationship with performance in Romanian business environment.

The study has several implications for management, policymakers, and researchers. First, the findings summary implies that the performance achievement of Romanian SMEs is supported by considering the development of comprehensive corporate governance guidelines specially addressed to these companies. SMEs should focus on establishing a Board of directors including independent members, gender diversity, and Board professional experience. The support of prior literature (Nasrallah & El Khoury, 2021; Wen et al., 2023) is given to these considerations.

Second, respondents' perceptions suggest that corporate governance specifics such as transparency in decision-making processes, setting up business policies, together with effective decisions, play a key role in SMEs from an emerging economy. Thus, the debated findings conduct to research hypothesis validation.

The limitations of this study may be related to having a small sample of respondents and a short frame time. Likewise, this research includes a small number of questions. Therefore, research perspectives may be extended with a larger sample size and a broader range of questions to guide future approaches on different corporate governance specifics, such as audit, internal control, and connection with stakeholders.

Acknowledgment

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