

# The Influence of Governance Structures on the Performance of Women-owned Small and Medium Enterprises in Meru District, Tanzania

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## Abstract

Small and Medium enterprises (SMEs) in Meru District are growing to some extent but the enterprises are operated under severe internal and external constraints. It is realized that women-owned SMEs underperform because they lack corporate governance structures to influence their performance. For that reason, corporate governance has become a global concern since researchers have established a strong link between governance structures and business performance. The main purpose of the study was to investigate influence of governance structures on the performance of women-owned SMEs in Tanzania. A descripto-explanatory research design was adopted for the study covering a sample size of 30 respondents comprising of business owners, managers and employees in Usa-river ward, Meru district, Tanzania. Data was collected using semi-structured questionnaires that were distributed to respondents at their work stations. Data analysis involved both descriptive and inferential statistics to determine the status of the variables and also to establish the influence of independent variables on the performance of the SMEs. Descriptive data included frequencies and percentages whereas the inferential tools comprised of correlation and Chi-square tests. A Pearson product moment correlation test established a positive correlation between power structure and performance of small and medium enterprises with a correlation coefficient of 0.350. The results of chi-square test revealed a strong association between resource control and performance of the women-owned small and medium enterprises.  $\chi^2 = 32.476$ ,  $p = .000$ . Chi-square test also revealed a strong association between transparency and performance of the women-owned small and medium enterprises.  $\chi^2 = 17.506$ ,  $p = .025$ . The study recommends that the government and the enterprise owners should provide the required business skills and knowledge to employees through training as well as reviewing strategies and methods for implementing transparency as laid down in the SMEs Development policy.

**Key Words:** Enterprise performance, corporate governance, governance structures, power structure, resource control and transparency

## Background

Globally it is recognized that Small and Medium enterprises (SMEs) contribute to economic development. Evidently, studies show that businesses owned by women contribute to economic growth and provide employment opportunities to unemployed women to generate income that can eventually help them alleviate poverty (Wasihun & Paul, 2010 & Wube, 2010). Regardless of their contribution, most of the women-owned enterprises underperform because they lack proper corporate governance mechanisms (Afande, 2015). However, history reveals that until 1980s little was known about women-owned enterprise in both practice and research. This means that majority of enterprises were owned by men and it was not common to see women-owned enterprises (ILO, 2006).

In Tanzania, SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas. Since there is no universally accepted definition of SMEs, then, the SMEs nomenclature is used to mean small and medium enterprises. Sometimes SMEs mean micro, small and medium enterprises (MSMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. In the context of Tanzania, micro enterprises are those engaging up to four people, in most cases family members. It employs capital amounting up to Tshs.5.0 Million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees and with capital investment from Tshs.5 million to Tshs.200 Million. Medium enterprises employ between 50 and 99 people. It uses capital investment from Tshs. 200 Million to Tshs.800 Million (URT, 2003).

In the SMEs development policy of 2003, the government of Tanzania designed a number of initiatives to address poverty and employment related problems. Such initiatives include National Entrepreneurship Development Fund (NEDF), the Women Development Fund (WDF) that is managed by the Ministry of Community Development and Women Affairs and Children, the Small Entrepreneurs Loan Facility (SELF), National Income Generating Programme (NIGP), Presidential Trust Fund and Community Development Trust Fund (URT, 2003). Likewise, Equal Opportunity for all Trust Fund (EOTF) and Equality for

Growth (EFG) were established to empower informal women workers in Tanzania through awareness creation on legal human rights and advocacy (Baseline Survey of Female Entrepreneurs, 2009 & International Finance Cooperation, 2007).

In response to governance structures and performance of the enterprises, the SMEs development policy of Tanzania clearly explains the importance of the effective utilization of the enterprise resources. The main aim of Tanzania national SMEs Development Policy of 2003 was to have a vibrant and dynamic SMEs sector that ensures effective utilization of available resources to attain accelerated and sustainable growth. Similarly, the overall objective of the policy is to foster job creation and income generation through promoting and creation of new SMEs. In addition, it aims at improving the performance and competitiveness of the existing enterprises to increase their participation and contribution to the Tanzanian economy. Further, the Policy aims to stimulate development and growth of SMEs activities through improved infrastructure, enhanced services and conducive institutional framework to ensure good performance of the SMEs (URT, 2003).

The SMEs development Policy states that the government will enhance the capacity of institutions providing business training to SMEs. The training programs mentioned in the SMEs policy development include comprehensive training on business plan, business management or supervision and record keeping (URT, 2003). However, the private sector of businesses in Tanzania is still young and small, but small and medium enterprises (SMEs) are beginning to play a key role in the economic and social development of the country although they face a number of challenges. Studies show that women-owned enterprises constitute about 75% of the total MSME's operators in the country. Specifically, women-owned enterprises in Meru District contribute above 45% of the district income Magesa *et al.* (2013). Regardless of the government efforts to support women-owned SMEs still they underperform (Kimaro, 2014).

The UK model of 1992 and the 1999(revised in 2004) OECD principles of the corporate governance explained the importance of power structure in the performance of the company. In this model balance of power between executives and non-executive directors has been emphasized so that no individual can dominate the decision-making. The principles have influenced development of corporate governance not just in the United Kingdom, but also in many other countries. Transparency was also mentioned in the OECD principles of corporate governance of 1999 as an element of good corporate governance. The emphasis on the transparency is on the disclosure of information and audit. The enterprise transparency and reporting system on the financial services and resource utilization is very important for the sustainability of the enterprise. Clear roles of directors and Non-executive members of the board in the enterprise enhance disclosure of clear information to the right person. Similarly, frequent auditing enhances the effective utilization of financial resources to meet the enterprise goal. Studies justify that governance structure is vital for survival of the company and a measure of how predictable the system for doing business is in any country. In addition, the adoption of corporate governance structures can greatly assist the SME sector by influencing better management practices, stronger internal auditing, greater opportunities for growth and new strategic outlook (Afande, 2015; Abor & Adjasi, 2007). All these principles can be applied in any enterprise since they have been proved by its adoption all over the world (Dzigba, 2015).

Corporate governance has therefore become a global concern since researchers have established a strong link between good corporate governance and business performance. It is for that reason that it has dominated policy agenda in developed market economies for more than a decade and it is gradually moving to the top of the policy agenda in the African continent. It is highlighted that poor performance of the corporate sector in Sub-Saharan Africa has made corporate governance a catchword in the development debate (Abor & Adjasi, 2007). Therefore, corporate governance has occupied central paramount position among the preoccupations of the enterprises in decision-making as a result of poor performance among small and medium enterprises because they lack of corporate governance practices and structures (Dzigba, 2015).

The United States of America (USA) is one of the countries in the world that has practiced corporate governance in the SMEs and it has economically succeeded through the growth and performance of women-owned small and medium enterprises. The Sarbanes-Oxley Act was introduced in the US in 2002 in order to ensure performance of the company. This act introduced new oversight board, audit committee and tighter regulations on certain accounting issues. The same structure has helped performance of the SMEs in the USA (Ponnu, 2008). It is explained that due to good governance structure over the last 15 years in the United States of America women-owned enterprises have grown by one and a half times the rate of other small enterprises and now account for almost 30 percent of all businesses in the USA (Centre for Women in Business, 2013).

In India, good governance structure has helped women-owned enterprises to make a significant contribution to the Indian economy. There are nearly three million micro, small, and medium enterprises with full or partial female ownership. In order to ensure good performance of the enterprises the government of India instructed its central bank to govern and monitor the effective utilization of the loans. Good governance and monitoring of the Indian central bank influenced good performance of women-owned businesses that resulted in an increase of loans to women from 2.36 percent in 2001 to 5 percent of total lending in 2007 as they effectively utilized their loans (International Finance Corporation, 2012). Currently, developing countries including Tanzania are increasingly embracing the concept of good corporate governance because of its ability to impact positively on firm performance. Firms are now improving their governance structures and practices knowing that it boosts the bottom line and generating investor goodwill and confidence (Abor & Adjasi, 2007).

### Purpose of the Study

The purpose of this study was to investigate the influence of governance structures on the performance of women-owned small and medium enterprises in Meru District Tanzania. Specifically, the study sought to investigate the influence of power structure, resource control and transparency on the performance of women-owned small and medium enterprises in Meru District.

### Research Methodology

The study adopted a descripto-explanatory research design for the study covering a sample size of 30 respondents comprising of business owners, managers and employees in Usa-river ward in Meru district, Tanzania. Data was collected using semi-structured questionnaires. Data analysis involved both descriptive and inferential statistics. Descriptive data included frequencies and percentages to determine the status of the variables under study, whereas the inferential tools comprised of correlation and Chi-square tests to determine and explain the relationship between the independent and dependent variables.

### Results and Analysis

#### Response Rate

The study achieved a response of 20 out of a sample of 30 respondents, representing a response rate of 66.7%. This shows that the findings were of good quality and legitimate (Dillman *et al.*, 2009, Lynn 2008 & Groves, 2006).

#### The Influence of power structure on the performance of enterprises

The first objective sought to establish the influence of power structure on the performance of SMEs in Meru District, Tanzania. The respondents were given a set of statements regarding the influence of power structure on the performance of SMEs and asked to rate them on a scale of 1 to 5, where 1 meant strongly disagree and 5 was strongly agree. A mean score and standard deviation of the responses for each statement was then computed as shown in Table 1. The results indicate that majority of the enterprises lacked clear management structures (2.8000) and the owners (3.3500) managed them. This might have been because majority of the businesses were micro enterprises and therefore it could have been uneconomical to engage an external manager to manage it. In the same enterprises, employees responded that they did not have schedule for their duties and responsibilities. Employees were assigned responsibilities and duties daily. This might be one of the reasons for low performance of majority of the SMEs in Meru District. The findings concur with the findings of Kimaro, (2014), that small and medium enterprises in Meru District are growing to some extent but the enterprises operate under severe internal and external constraints regardless of the education programmes set- up by the government to support their growth.

However, it emerged that managers (2.8947) managed a few of the enterprises. Most of the respondents in those enterprises felt that everyone in their enterprise through work schedule understood his duties and responsibilities (3.0000) but disputed the claim that everyone participates in decision-making (1.5000). The standard deviation shows that there was a slightly high variation in the items responses because most of them were greater than 1 and the bigger the value of the standard deviation the bigger the level of scatteredness and vice versa. The findings agree with the findings of Ponnu (2008) that corporate governance structures play the main role in the enterprise performance because it enhances the control over resources by clearly stating the roles and duties for each member in the enterprise that influences good performance in business operations.

**Table 1: Power structure of SMEs in Meru District**

Statement	Mean	Std. Deviation
In this enterprise, there is clear management structure	2.8000	1.15166
Our enterprise is managed by the owner	3.3500	1.03999
Our enterprise is managed by the manager	2.8947	1.48678
Everyone in the enterprise knows his duties and responsibilities	3.0000	1.12390
Every one participates in decision making	1.5000	.76089

#### Response to the question on how Power Structure influences the Performance of the Women-owned Small and Medium Enterprises in Meru District Tanzania

A Pearson Product Moment Correlation test was run to establish whether power structure had a significant influence on the performance of the women-owned small and medium enterprises. As shown in Table 2, there was a positive correlation between power structure and performance of small and micro enterprises with a correlation coefficient of 0.350. The test was run at a 0.01 significance level. The p-value is 0.000 and thus, less than the alpha of 0.01 hence establishing a high significant relationship between variables. The findings confirm those of Ponnu (2008) that corporate governance should be inclusive of the structures, processes, and systems that engender the successful operation of enterprise.

**Table 2: Relationship between power structure and performance of SMEs**

		Power structure	Performance of enterprises
Power structure	Pearson Correlation	1	0.350 (**)
	Sig. (2-tailed)	.	0.000
	N	20	20
Performance of enterprises	Pearson Correlation	0.350 (**)	1
	Sig. (2-tailed)	0.000	.
	N	20	20

### Influence of Resource Control on Performance of SMEs

Objective two sought to determine how the resource control influences the performance of the women-owned small and medium enterprises in Meru District, Tanzania. The respondents were given a set of questions regarding resource control and were asked to indicate whether they agreed with them or not. The results in Table 3, indicate that 25% of respondents had acquired various skills in the course of performing their duties however, most of them (70%) of the contrary opinion and the 5% answered that they acquired skills during the business operations. However, 35% stated that skills acquired helped them to perform their responsibilities more efficiently.

**Table 3: Acquisition of business skills**

Statement	Yes		No		Non- response	
	Freq.	%	Freq.	%	Freq.	%
Any business skills acquired while working in this enterprise	5	25.0	14	70.0	1	5.0
If yes, do the skills acquired by employees help to perform responsibilities in this enterprise	7	35.0	3	15.0	10	50.0

The above findings concur with the study done by Rahim and Abu Bakar (2014) which argues that prudent financial resources management will increase a person's stock of information and skills, including those needed to recognize and pursue an entrepreneurial opportunity successfully. The argument to the findings of Barringer *et al.*, (2005) state that possession of relevant skills and experience of the business helps to ensure the survival of a business at start-up, its future performance and growth. Lack of the skills and specific experience in a similar business hinders the performance and success of that particular business. Therefore, education, trainings and advisory services are mentioned as powerful tools towards business performance since it provides women entrepreneurs with the knowledge, skills and self-confidence they need in order to seek out economic opportunities (Stevenson & St-Onge, 2005).

### Response to the question on how the Resource Control influences the Performance of the Women-owned Small and Medium Enterprises in Meru District Tanzania

Chi-Square independence test was run to determine the level of association between resource control and performance of the women-owned small and medium enterprises. The results revealed a strong association between resource control and performance of the women-owned small and medium enterprises.  $\chi^2 = 32.476$ ,  $p = .000$  as presented in Table 4. This indicates that resource control affects the performance of SMEs. The findings confirm those of Davis (2012) who indicates that majority of women who own enterprises are less entrepreneurial because they lack the necessary skills, attitude and education to control both capital and human resources for the performance of their enterprises.

**Table 4: Chi-square test results**

	Value	Df	Asymp. sig. (2 tailed)
Pearson Chi-square	32.476 <sup>a</sup>	6	.000



Likelihood ratio	30.222	6	.000
Linear by linear association	34.914	1	.000
N of valid cases	20		

### Transparency and Accountability versus Performance of SMEs

Objective three sought to determine the influence of transparency on the performance of the women-owned small and medium enterprises in Meru District, Tanzania. The respondents were given a set of questions regarding resource control and were asked to indicate whether they agreed with them or not.

### Level of Accountability and disclosure of information

The results in Table 5 indicates that only few (30%) enterprises held regular business meetings to discuss the performance, majority (70%) did not. 45% of the respondents also indicated that they had work schedules that guided their operations while 55% did not have the schedules.

**Table 5: Accountability and disclosure of the information**

Statement	Yes		No		Non- response	
	Freq.	%	Freq.	%	Freq.	%
Are there regular meeting in this enterprise	6	30.0	14	70.0		
Is there Work Schedule at the enterprise	9	45.0	11	55.0		
Do the employee adhere to this schedule	11	55.0	3	15.0	6	30.0
Do the employees give the report to the management	10	50.0	10	50.0		

While 45% responding to have work schedules, 55% indicated that, they adhered to them but 45% did not respond, as they did not have work schedule. Half 50% of the respondents also confirmed that the employees were required to give reports to management. The results further indicate that 35% of the respondents submitted daily report to the managers, 10% submitted weekly reports and 10% did not submit any kind of report and 45% did not respond as shown in Table 6.

**Table 6: Types of reports prepared and their contents**

Type	Frequency	Percent	Contents
Daily report	7	35.0	Sales
Weekly Report	2	10.0	Profit gained
No report at all	2	10.0	Loses
Non-response	9	45.0	Non-response
<b>Total</b>	<b>20</b>	<b>100.0</b>	

### Response to the question on how Transparency influences the Performance of the Women-owned Small and Medium Enterprises in Meru District Tanzania

The results of chi-square test revealed a strong association between transparency and performance of the women-owned small and medium enterprises.  $\chi^2 = 17.506$ ,  $p = .025$  as presented in Table 7. This indicates that transparency affects the performance of SMEs. The findings confirm those of Ponnu, (2008) who argues that the erosion of investor confidence in SMEs in Malaysia was brought by the country's poor corporate governance standards and a lack of transparency in the financial system.

**Table 7: Chi-Square test regarding transparency and performance**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	17.506 <sup>a</sup>	8	.025
Likelihood Ratio	19.781	8	.011
Linear-by-Linear Association	9.021	1	.003
N of Valid Cases	20		

Significance level = 0.05

### Conclusions

Among the women-owned SMEs, the enterprises led by managers had good performance because of clear management structure and possession of business skills. Therefore, clear management structure and business skills contributed to the increase of sales, number of employees and monthly profit. However, performance of the enterprises led by the owners was low because of unclear management structure and lack of business management skills. As a result, the employees were not involved in decision-making as well as not having work schedule for every member to know his daily responsibilities. This implies that there is poor implementation of the SMEs development policy of 2003. The policy states that the government will enhance capacity for all the institutions that provide business skills trainings to the entrepreneurs such as business plan, business management or supervision and record keeping in order to improving performance of the enterprises. Thus, it is important to provide business skills to all business managers, owners and employees.

In relation to resource control, a few enterprises were able to control enterprise resources because respondents had acquired skills, which helped them to perform their responsibilities more efficiently. Nevertheless, performance of most of the SMEs had limited internal resources; human capital and management skills. This implies that there was underutilization of the enterprise resources because of insufficient business skills, attitude and education to control both capital and human resources. Nevertheless, in the majority of the enterprises studied there is still violation of the main aim of Tanzania national SMEs Development Policy of 2003. The policy intends to have a vibrant and dynamic SMEs sector that ensures effective utilization of available resources to attain accelerated and sustainable growth.

The results about transparency revealed a strong association between transparency and performance of a few of the enterprises. This means that the implementation of the values of transparency influenced good performance of a few enterprises. The values include giving reports to management, having work schedule to guide their business operations as well as having regular business meetings to discuss performance of their enterprises. However, enterprises that did not practice the values of transparency, did not improve their systems and thus low performance of their enterprises. This implies that methods used to put in practice the aspect of transparency were not effective enough to improve accountability, quality and quantity of the disclosure of information about the effective utilization of resources and the performance of the responsibilities towards meeting the enterprise goal. Therefore, it is important for the enterprises to make sure that every member in the enterprise effectively implements transparency through the disclosure of information, giving reports and following work schedule.

Generally, the level of performance of majority of enterprises owned by women in Meru district was low. The fact is that the skills about power structure, resource control and transparency was less effective in the enterprises led by the owners compared to those led by managers.

### Recommendations

As regards to poor management skills, majority of the enterprises did not perform well because managers and owners did not have skills needed for business management and control of resources. Therefore, the study recommends that the government should provide to all entrepreneurs the skills related to business management such as business planning, record keeping and skills on how to control resource. In addition, it is recommended that, each enterprise owner should organize training programmes to equip the employees within the enterprise with basic business skills to enhance good performance of the business.

Further, an enterprise should adopt separated power structure because it clearly divides the positions of the owner and manager in order to balance power, to avoid conflict of interest as well as to avoid a single person decision making. Moreover, the enterprises should review strategies and methods for implementing transparency as laid down in the SMEs Development policy. The review will enhance effective application of the methods and strategies for the purpose improving both transparency and enterprise performance.

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