

DURBAN UNIVERSITY OF TECHNOLOGY

**THE ROLE OF CORPORATE GOVERNANCE TOWARDS THE RELIABILITY OF
FINANCIAL REPORTS IN SMALL AND MEDIUM ENTERPRISES IN DURBAN,
KWAZULU-NATAL**

SINENHLANHLA THABILE NOMPILO KHUMALO

AUGUST 2024



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FINANCIAL REPORTS IN SMALL AND MEDIUM ENTERPRISES IN DURBAN,
KWAZULU-NATAL**

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ABSTRACT

Small and medium enterprises (SME) play a vital role in the global economy, but their financial reporting reliability is a concern due to limited resources. Corporate governance is crucial for directing businesses, fostering participation, and ensuring long-term sustainability. This research investigates SMEs' compliance, challenges, and the role of corporate governance in the reliability of their financial reports.

The research employed quantitative research design as a technique of collecting data and analysing data, collected from a sample of 248 SMEs via non-probability, purposive sampling method. The findings were presented and analysed by SPSS 28.0.

The study found that SMEs in Durban lack a board structure, which is crucial for strategic decision-making and sustainability. The absence of effective corporate governance has a detrimental impact on the transparency and reliability of financial reporting, ultimately jeopardising the viability of these enterprises. Conversely, when governance is properly implemented, it can mitigate potential risks and improve compliance, thereby supporting the long-term growth and success of SMEs.

Furthermore, corporate governance and financial reporting help address internal difficulties encountered by SMEs. The dependability of financial reports is dependent on excellent governance, effective risk management, and ethical compliance. This assurance is achieved through the process of auditing.

The study revealed that SMEs require greater focus on strategic policies, governance, and access to platforms that facilitate the development of professional networks. These networks provide businesses with access to skilled individuals who can potentially serve as non-executive board members.

Keywords: Corporate Governance, Financial Reporting, SME, Transparency, Accountability

DECLARATION

I, **Sinenhlanhla Thabile Nompilo Khumalo** declare that:

- i. This dissertation, except where otherwise indicated, is my original research.
- ii. This dissertation has not been submitted for any degree or examination at any other university.
- iii. This dissertation does not contain other person's data, pictures, graphs or other information, unless specially acknowledged as being sourced from other persons.
- iv. This dissertation does not contain other person's writing, unless specifically acknowledged as being sourced from other researchers. Where other written sources have been quoted their words have been re-written, but the general information attributed to them has been properly referenced; where their exact words have been used, their writing has been quoted and referenced.
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Sinenhlanhla Thabile Nompilo Khumalo

06 August 2024

DEDICATION

I dedicate this work to God, my Creator; my ancestral guides; my family; my head of department and my supervisor.

ACKNOWLEDGEMENTS

I would like to acknowledge and convey my gratitude to:

My father, Mr. Bhekinkosi Raymond Khumalo; My mother, Mrs. Thembisile Eunice Khumalo, your prayers have my source of strength.

My brothers, Njabulo Khumalo, Mpumelelo Khumalo, Nkosinathi Khumalo and Siphesihle Khumalo.

My sisters, Nonhlanhla Given Khumalo and Abongile Khumalo.

My babies, Sisanda Halalamantungwa Khumalo; Nqubeko Mzilikazi Khumalo; Langaletu Siyazinca Zenani Khumalo, Athandile Ntungwelihle Khumalo and Hlaluminathi Azisa Khumalo.

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ABBREVIATIONS

CIPC	Companies and Intellectual Property Commission
COVID-19	Corona Virus Disease
CSR	Corporate Social Responsibility
DTI	Department of Trade and Industry
GAAP	General Accepted Accounting Practice
GDP	Gross Domestic Product
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IoDSA	Institute of Directors Southern Africa
JSE	Johannesburg Stock Exchange
KZN	Kwa-Zulu Natal
SA	South Africa
SARS	South African Revenue Services
SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprise
SMME	Small, Micro and Medium Enterprise
SOCE	Statement of Changes in Equity
SOFP	Statement of Financial Position
SOPL	Statement of Profit or Loss
VAT	Value-Added Tax
XBRL/iXBRL	eXtensive Business Reporting Language

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CHAPTER 1

BACKGROUND AND CONTEXTUAL FRAMEWORK OF THE STUDY

1.1 Introduction

Corporate governance has proven very important in the direction and control of the business. Its absence is the biggest contributor to the world's major and high-profile corporate scandals.

Financial reporting is of importance to potential investors, regulators, auditors, and money-lenders, as well as venture capitalists, and other stakeholders, significantly influencing their decisions on whether to provide resources to the business, thus, becoming instrumental in the sustainability and growth of the business. Financial reports give an accurate picture of how corporate governance practices have been implemented; how risk is mitigated; how business resources have been utilised; how collective management or board of directors are protecting the interests of all stakeholders as well as the impact of the to the business profits and reputation.

As principal economic drivers, SMEs in South Africa (SA) are failing to sustain themselves. According to the government of SA (smesouthafrica.com 2019: 1), SMEs require financial support and the State has, therefore, developed comprehensive and various schemes to assist SMEs with financial resources. Furthermore, SMEs can benefit from being exposed to skilled personnel that can mentor or impart skills in the production and publishing of financial reports.

This study aims to determine challenges SMEs face with compliance and implementation of corporate governance and the production of financial reporting, subsequently engineering growth and sustainability.

1.2 Background

Financial reporting has been one of the cornerstones of both ancient and modern business, containing the businesses' power and untapped potential (Durcevic 2019: 3). The importance of financial reporting cannot be understated, since all businesses are required by law to produce and disclose financial reports. The South African government requires the company's financial reports to be disclosed and filed with the

South African Revenue Services (SARS) for tax purposes (SARS 2019: 2) or when required. Section 30 of the Companies Act 71 of 2008 (hereafter referred to as the Act) stipulates Annual Financial Statements must be prepared by the company within six months after the end of its financial year (SA DTI 2008: 1). This is to ensure the information in the statements is both relevant and timeous. Financial reports become a looking glass, allowing stakeholders and users to see the reflected financial performance and well-being of a company.

Technological advancements and infrastructure have a vital and positive effect on any company. From the smallest survivalist companies, to conglomerate corporations, technology has both tangible and intangible power on operations, communications, productivity, and now, financial reporting (Durcevic 2019: 3). The Companies and Intellectual Property Commission (CIPC) has made a forward leap, in the implementation of eXtensive Business Reporting Language (XBRL and iXBRL), a system used for submission and disclosure of financial reports; already implemented in more than 50 countries (Naidoo 2019: 1).

Through this action, CIPC technologically launched SA into the competitive digital world of financial reporting, by mandating the submission of annual financial statements, solely in XBRL format, from 1 July 2018 (Naidoo 2019: 1). XBRL is, therefore, a “digital gold mine” that yields transparency in financial information, which is a step towards reliable financial reports, allowing stakeholders and users ease of mind. This technological leap in the disclosure of financial reporting can be beneficial to SMEs, as it not only ensures adherence to the financial reporting regulations, it also places SMEs in a prime spot for investment consideration.

The adherence to accounting principles is the backbone in compiling the financial statements, which must be investigated in tandem with corporate governance. The collaboration of both is paramount to achieving reliable financial reporting. The International Financial Reporting Standards (IFRS) are regulations that dictate the intricacy of the different aspects of financial presentation, analysis, and reporting. To guarantee uniformity and transparency of financial presentation, IFRS is adhered to by all countries, except the USA, which still adheres to General Accepted Accounting Practice (GAAP) (Ismail 2017: 18). The study will explore and discern the role

corporate governance plays in achieving reliable and transparent financial reporting, whether the financial performance meets the set standards.

Corporate governance has sparked noteworthy deliberations for more than seven decades (Wells 2010: 1274). Through the evolution of corporate governance, studies have shown all who are employed by, invest in, reside within the radius of, as well as transact with the company, are deemed its stakeholders. The board of directors is the custodian of corporate governance (Institute of Directors of Southern Africa 2016: 41). In other words, corporate governance seeks to safeguard shareholder interests, as well as the audibility of their voices, which are to be carried out by the Board of Directors, and that is Agency theory, which illustrates the relationship between the company owners (principals) and the board of directors (agents). Therefore, the importance of corporate governance cannot be disparaged.

Agency theory is foreseen under the impression that the principal and the agents want to maximise their wealth in different ways; when the “principal fails to monitor the agent against opportunistic and improper financial performance and expropriation” the agency problem occurs (Chen *et al.* 2016: 1). Corporate governance, regulated by the King IV, works in synergy with the Act and other relevant pieces of legislation and sources of law, ensuring the optimum function of the company, proper utilisation of funds, as well as minimising conflicting interests between stakeholders that may harm company well-being. Proper fund utilisation and optimum function manifest transparency in the financial reports of the company. Officers and Directors controlling and directing the company in the interest of the shareholders would be considered an aspect of good governance (Wells 2010: 1252). The shareholders must also understand their role in guaranteeing their activeness in the company, as they must appoint the board of directors and auditors, as well as attain their satisfaction of the pertinent governance structures within the company being in position (Cadbury 1992: 49).

The study seeks not only to investigate the role corporate governance plays in achieving a reliable financial report, but to also determine the impact of these elements on SME sustainability.

1.3 Problem Statement

SMEs have a high failure rate after inception, yet they are the key contributors to the economy of SA. SMEs do not compile financial reports and by extension, integrated reports. In addition, they are not compliant with corporate governance practices, and from the insufficiency of data, SME performance is inadequately monitored; therefore, sustainability of SMEs is not certain (SBI 2018: 1).

The International Accounting Standards Board (IASB) and IFRS have adapted the framework for financial reporting, enabling implementation by SMEs (Du Bourg 2018: 74), as has King IV, for corporate governance practices in SMEs. However, the regulations that govern financial reporting and corporate governance (IFRS and King Code), respectively, state financial reporting and corporate governance compliance are not compulsory for SMEs, which may hinder sustainability, since compliance is a choice for SMEs, rendering the adaptations of these regulations somewhat pointless. More so, owner-managers do not particularly heed corporate governance practices, since there is no Board of Directors structure as prescribed in King IV (IoDSA 2016: 10).

As with large businesses, corporate governance implementation is a process, however, SMEs view neither governance nor its implementation as a priority or an obligation, with financial reporting and integrated reporting also not seen as a need by SMEs, which impacts negatively on business sustainability and growth. Furthermore, the outcome is the inability to reap the benefits corporate governance holds. As Le Roux (2010: 45) explained, there is a direct reward in gaining investor trust through quality of transparency and reliability in the financial (integrated) report, which is directly proportional to the opportunities of receiving capital injection into the business. This adds to Babatunde and Olaniran (2009: 330) who found the strength of corporate governance compliance in the company reflects in the financial /integrated report.

According to the King IV guide for SMEs (IoDSA 2016a: 41), the improvement of corporate governance has the potential to boost productivity and growth of the business. The guide continues to list the benefits of corporate governance, which include: improvement of leadership, decision-making, and strategic vision; and improved systems to monitor and mitigate risk. Therefore, when the owner-manager lacks strategic vision and strategic planning skills, the business cannot be sustained.

It can, therefore, be surmised SMEs face challenges of inadequate managerial skills and since SME owner-managers are responsible for the running and managing of their businesses, strategic training, and planning training are paramount (Watkins and Smit 2012: 12).

According to Du Bourg (2018: 85), most SME owners do not prepare financial reports because of costs that may harm their capacity to satisfy customer demand. Since it is not obligatory to prepare these reports, the need for additional cost to prepare them is, therefore, not a priority. In essence, offering SMEs a choice to not comply with corporate governance practices and financial reporting, is easier than finding ways of reducing costs for implementation and compliance.

Moreover, many SMEs in the Durban region, particularly, may lack the necessary knowledge and understanding of corporate governance principles and financial reporting requirements. According to Singh and Pillai (2021: 30), this knowledge gap can be attributed to limited access to training and education on these topics, as well as a lack of awareness of the benefits and importance of compliance in driving business sustainability and growth. SMEs in Durban, KwaZulu-Natal often face resource constraints, including limited financial resources and a shortage of skilled personnel with expertise in corporate governance and financial reporting. Sitharam (2014: 17) argues that these resource constraints can make it challenging for SMEs to allocate the necessary time, money, and personnel to ensure compliance with complex regulatory frameworks. Additionally, the informal and often family-based nature of many SMEs in Durban, KwaZulu-Natal can contribute to a lack of formal structures and processes for corporate governance and financial reporting. This informality can make it difficult for SMEs to establish and maintain robust systems for internal control, risk management, and financial transparency. Furthermore, SMEs in Durban, KwaZulu-Natal may also face external pressures and constraints that impede their ability to comply with corporate governance and financial reporting.

As such, this study will explore the financial reporting and corporate governance practices in SMEs as well as potential benefits, to make recommendations for improvements in SME financial reporting and corporate governance in Durban, KwaZulu Natal (KZN).

1.4 Research Aim

This study aims to explore the role of corporate governance towards reliable financial reports in SMEs in Durban, KZN.

1.4.1 Research Objectives

- To examine the financial reporting and corporate governance practices in SMEs.
- To identify the factors influencing financial reporting and corporate governance in Durban SMEs, in the KZN province.
- To determine to what extent these identified factors affect financial reporting and corporate governance in SMEs in Durban, KZN.
- To recommend a new approach that could be implemented to improve SME financial reporting and corporate governance in Durban, KZN.

1.4.2 Research Questions

What are the financial reporting and corporate governance practices that SMEs in Durban, KZN follow when compiling financial reports?

What factors influence financial reporting and corporate governance in SMEs in Durban, KZN?

To what extent do these identified factors affect the financial reporting and corporate governance of SMEs in Durban, KZN?

1.5 Rationale of the study

An examination of the adherence of SMEs to corporate governance and financial reporting in Durban, KwaZulu-Natal will yield useful insights into the determinants that impact their performance and expansion, hence benefiting SMEs. These observations can assist SMEs in comprehending the significance of adopting effective corporate governance measures and guaranteeing precise financial reporting. SMEs can bolster their credibility and dependability among potential investors and financial institutions by adhering to corporate governance standards and upholding transparent financial reporting. This, in turn, heightens their prospects of securing financial assistance and expanding their enterprises (Ufua, Olujobi, Ogbari, Edafe 2020: 21)

Moreover, the study aims to elucidate the correlation between corporate governance traits and the quality of financial reporting in Durban, KwaZulu-Natal, South Africa, specifically focusing on a developing country context (Kabwe 2023: 38).

The study's findings can provide guidance to policymakers and regulatory authorities in creating efficient enforcement methods and strategies to enhance adherence to accounting standards in the area. By adopting this approach, SMEs may enhance the safeguarding of the concerns of all parties involved and make a valuable contribution to the overall expansion and long-term viability of their business activities.

An examination of SMEs' adherence to corporate governance and financial reporting in Durban, KwaZulu-Natal will be advantageous for SMEs as it will furnish them with insights into the possible advantages and difficulties associated with adopting corporate governance measures and guaranteeing precise financial reporting.

Having this comprehension may assist SMEs in making well-informed choices and implementing essential measures to increase their governance frameworks, improve the quality of financial reporting, and ultimately propel their long-term success and expansion.

Overall, the economy of SA as a whole will benefit from this study, once SMEs use corporate governance as the educative and directive aid in the business. Corporate governance in financial reporting will assist in ensuring transparency of the business to its stakeholders. Once the probabilities of sustainability and growth improve, the rate of SME failure will decrease, as will the employment rate of the country.

1.6 Scope of the study

The scope of the study is limited to SMEs in Durban, KwaZulu-Natal. The study identifies and examines financial reporting and corporate governance compliance, implementation challenges that SMEs face as well their impact to the sustainability of the business.

1.7 Delimitation of the study

According to Miles (2019: 7), delimitations is defined as limitations that are self-imposed by the researcher. He further states that they are restrictions that the

researcher sets to work within, consequentially preventing generalisation. This study focuses on the SMEs that fall within the geographical area of Durban.

1.8 Limitation of the study

Limitations are restrictions that are beyond the researcher's control (Miles 2019: 2). The researcher does not have sufficient budget and time for data collection and therefore, hence the self-imposition of researching within the Durban area. COVID-19 restrictions could also be a potential limitation; therefore, the data collection will be electronic for all respondents.

1.9 Research methodology

The methodology utilised in this study is quantitative in the exploration of the role of corporate governance in the reliability of the financial reporting in SMEs. The target population for the study comprises of participants who either, own, manage or direct the businesses. The sampling technique used in the study is non-probability. The convenient sampling techniques was used in the study. The total number of respondents that consented to participate in the study is 248.

The data was collected through a 3-sectioned questionnaire with a total of 30 questions. Participation was entirely voluntary.

The pilot study was conductor prior to data collection to ensure the validity of the study. The pilot study was conducted electronically, via google forms, to ensure anonymity and confidentiality. The data collection for the main study was done in the same manner.

The version of software used was SPSS 28.0 to analyse the quantitative data collected for this study.

1.10 Outline of the study

The setting for the investigation was outlined in Chapter 1 along with the study's tenor.

In Chapter 2, the study will be compared to the scholarly opinions of academics who have previously researched corporate governance and financial reporting.

The methods utilised in the study to choose individuals to participate in providing the data gathered and analysed, are outlined in Chapter 3.

The data analysis and discussion of the research findings are presented in chapter 4.

Conclusions and suggestions for the study are offered in Chapter 5.

1.11 Conclusion

The introductory chapter offered a preliminary look at the research topic and process that will be followed. The next chapter presents an examination of literature published on the phenomena under study.

CHAPTER 2

LITERATURE REVIEW OF THE STUDY

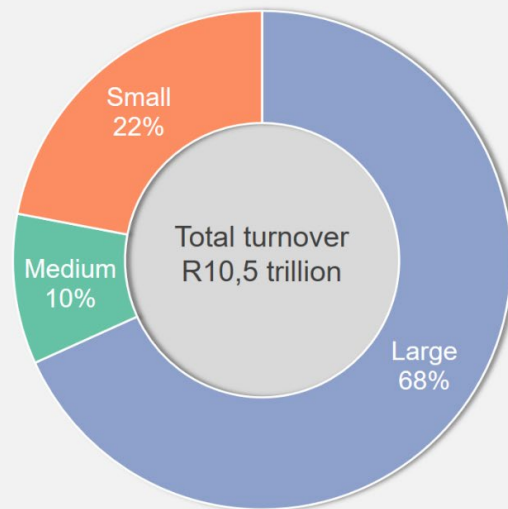
2.1 Introduction

SMEs across South Africa have become the life force of the economy, with an astounding contribution. According to Kalidas, Magwentshu and Rajagopaul (2020a:1) SMEs employ between 50% and 60% of South Africa's workforce across all sectors and are responsible for 25% job growth, therefore SMEs are deserving to be protected by all means, not only against the turbulent and contracting economy but also against the added-pressures that the "new normal" created by the COVID-19.

The government understands the urgent support needed for SMEs, hence the introduction of new legislation for SMEs. According to the annual financial statistics for 2019 (SA 2019: 1), SMEs account for 32% of the total turnover. Small businesses generated R2.3 trillion which is 22% and medium businesses generated 10% (SA 2019: 1), subsequently marking an increase in turnover since 2013. Consequently, the South African government has established a Small Enterprise Ombud Services, which will ensure that complaints are handled, disputes are resolved, and contracts are enforced in the sector is the graphical form of the turnover generated by small versus medium versus large enterprises.

Small business generated 22% of turnover in the formal business sector

Percentage contribution to total turnover by enterprise size, 2019



Source: Annual Financial Statistics (AFS), 2019



Figure : Small business generated turnover (SA 2019: 1)

South Africa needs to create more than three million jobs for young people by 2020 and the National Development Plan (NDP) approximates that the nation will be required to produce a further 11 million jobs by 2030. 90% of these are expected to come from new and growing SMEs (Maholwana 2019: 1).

There are, however, conflicting estimates of the size of the SME sector in South Africa. According to Bureau for Economic Research, SMEs contribute slightly more than 20% of GDP (before taxes and subsidies). The 2017 Global Entrepreneurship Monitor states that SMEs contribute to 36% of GDP (Herrington, Kew and Mwanga 2017: 35), while according to the Minister in the Presidency, they contribute to 42% of GDP and employ 47% (7.3 million) of the workforce.

Statistics South Africa's first quarter of 2017 Quarterly Labour Force Survey estimates that the informal sector (excluding formal SMEs) of the economy employs more than 2.7 million people, which accounts for about 20% of total employment (iLibrary 2020: 2). The number of SMEs in South Africa rose by 3%, from 2.18 million in the first quarter of 2008 to 2.25 million in the second quarter of 2015 (SEDA 2016: 13). Of the 2.25 million SMEs, 1.5 million were informal, concentrated in the trade and

accommodation sector, significantly demonstrating the vitality of the preservation of SMEs (iLibrary 2020: 3).

According to statistics, 50% of small businesses fail within 24 months of launch. According to research and a report by the UWC, between 70% and 80% of small businesses fail within 5 years (Eva Financial Solutions 2019: 1). This is a substantial quantity of small businesses that collapse in such a short period, consequently affecting the country's economy and unemployment rate negatively.

The failure of SMEs in such a short period from inception is alarming (Ntina 2022: 16). Therefore, ways of decreasing these bleak statistics need to be explored. One of which, is compliance to corporate governance and financial reporting. Corporate governance and financial reporting have been beneficial tools to larger companies, particularly towards potential securing of external funding (Eva Financial Solutions 2019: 1). Investigating the level of awareness and adherence to corporate governance among SME owners in Durban, KwaZulu-Natal is vital for understanding the current state of governance and financial reporting practices in the area and identifying areas for enhancement. In this chapter, scholarly literature is explored to ascertain whether it can provide valuable insights into how corporate governance principles are understood and implemented by SME owners, thereby improving transparency, accountability, and overall performance.

Focusing on Durban specifically will uncover unique challenges and opportunities within the local business environment, enabling targeted interventions to support SMEs in enhancing their governance practices (Maholwana 2019: 1). Conducting a study on the level of awareness and compliance to corporate governance and financial reporting among owners of SMEs in Durban, KwaZulu-Natal is important as it can provide valuable insights into the current state of governance and financial reporting practices in the region.

2.2 Theoretical Framework

SMEs have a dual role by not only creating jobs but also fostering innovation and entrepreneurship (Eva Financial Solutions 2019: 1). Nevertheless, the activities and decisions undertaken by SMEs may exert a substantial influence not only on their own prosperity but also on a range of stakeholders, including workers, customers, suppliers, the local community, and the environment (Wang, Pei, Liang, 2022). Hence, it is crucial for SMEs to implement efficient governance frameworks that consider both the principles of stewardship theory and stakeholder theory.

According to stewardship theory, managers, specifically entrepreneurs in SMEs, serve as stewards for the resources and interests that have been entrusted to them by different stakeholders (Wang, Pei, Liang, 2022). Their primary focus is on ensuring the long-term viability and expansion of the firm, rather than just pursuing their own personal objectives.

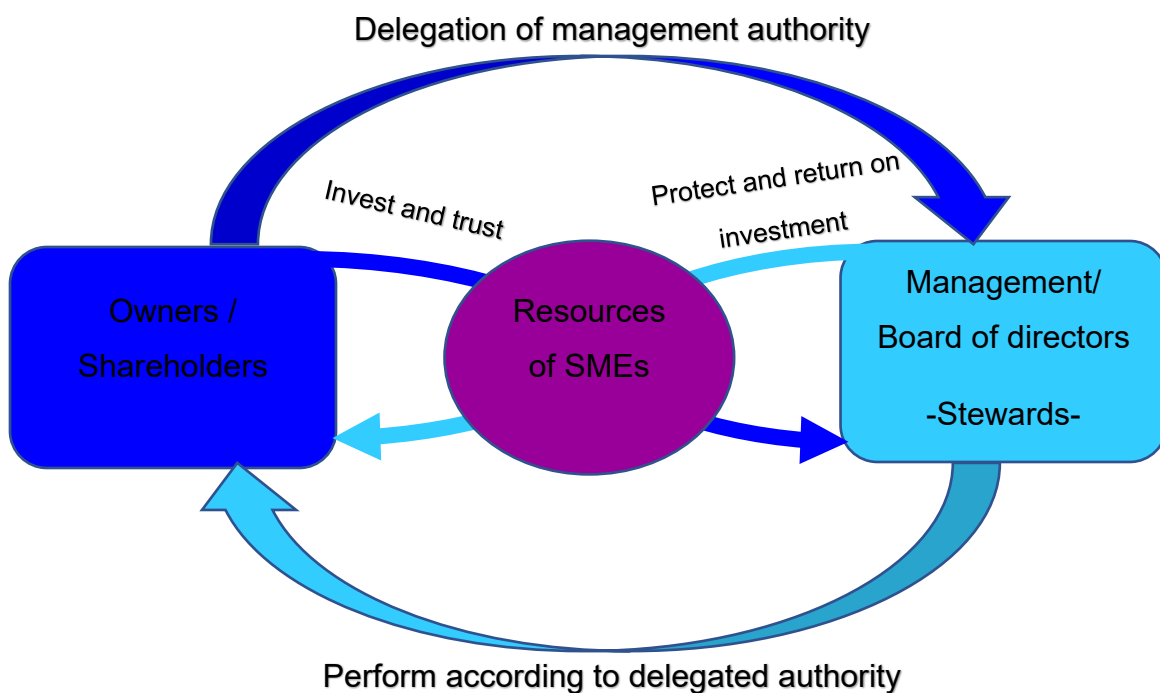


Figure 2.1: Stewardship theory in SMEs: Adapted by researcher from (Yusoff, Alhaji 2012)

Conversely, stakeholder theory underscores the significance of considering and harmonising the interests and requirements of all stakeholders engaged in the business (Muswema and Oelofse 2021). This encompasses not just monetary

stakeholders such as shareholders and investors, but also non-monetary stakeholders such as workers, customers, suppliers, and the local community. SMEs may establish a healthy connection between managers/entrepreneurs and different stakeholders by integrating both stewardship theory and stakeholder theory into their governance procedures (Muswema and Oelofse 2021).

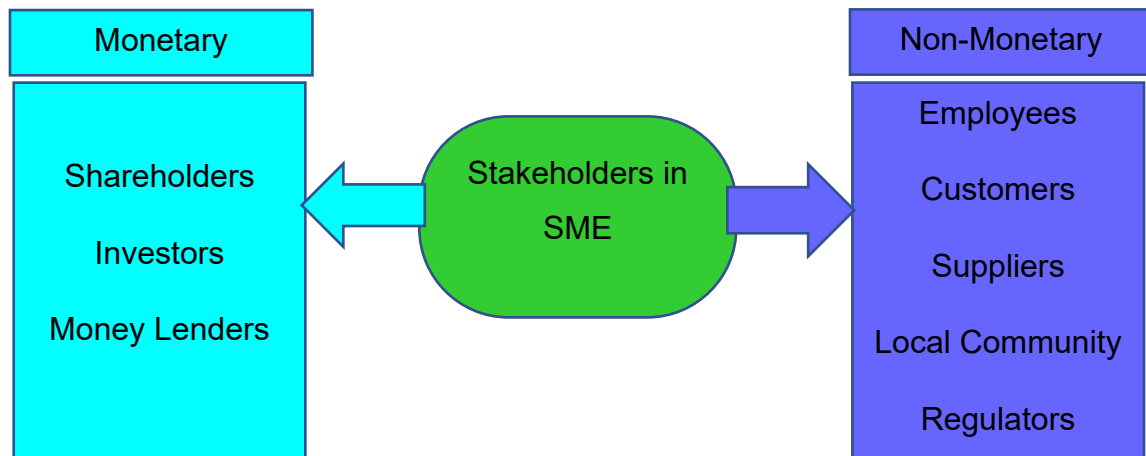


Figure 2.2: Stakeholder theory in SME adapted by researcher from Mahajan (2023)
The establishment of this connection fosters openness, accountability, and trust, all of which are crucial for the enduring prosperity and viability of the SME.

2.2.1. Stewardship Theory in corporate governance

Various ideas have arisen in the field of corporate governance to elucidate the connection between owners and managers and their influence on organisational results.

Stewardship theory suggests that managers can serve as responsible stewards who place the long-term success of the business above their own personal interests (Akomea-Frimpong 2022). This idea posits that managers possess an inherent motivation to prioritise the well-being of the firm and its shareholders, rather than being only influenced by financial incentives or personal gain (Beredugo, Igbo, and John, 2013: 102). The stewardship philosophy places significant emphasis on trust, reciprocity, and a steadfast dedication to the aims and values of the organisation.

Stewardship theory in corporate governance emphasises the significance of accountable leadership and a dedication to the organisation's long-term prosperity.

2.2.2 Stewardship in financial reporting.

Financial reporting is a crucial component of corporate governance in small and medium-sized firms in South Africa. The theory of stewardship posits that it may be especially applicable in the case of small and medium-sized enterprises in South Africa, where owners and managers often have strong personal connections and a profound dedication to the organisation (Martins, and Osemudiamen 2019: 331). Owners and managers of SMEs in South Africa typically have a substantial personal investment in the success of their company. This is because these enterprises are closely tied to family and community relationships, as noted by (Fauzyyah and Rachmawati 2018: 42). Consequently, they are inclined to embrace a stewardship mentality and value the welfare of the organisation before personal benefits. This can result in enhanced ethical and accountable governance practices, since managers are driven by intrinsic incentives such as personal gratification, reputation, and the aspiration to provide a positive heritage for future generations (Negeri, Wakjira and Kant 2023).

Financial reporting is essential for the implementation of stewardship theory in SMEs in South Africa. Financial reporting functions as a mechanism for ensuring responsibility and openness, enabling owners, managers, and stakeholders to evaluate the financial accomplishments and management of the company (Hassan, Owolabi and Asikhia 2020: 198). SMEs may enhance stakeholders' trust and confidence by furnishing precise and thorough financial information, therefore showcasing their dedication to responsible management (Negeri, Wakjira and Kant 2023). Furthermore, financial reporting in SMEs facilitates efficient decision-making and allocation of resources. It offers owners and managers valuable information about the financial condition of the organisation, enabling them to make well-informed strategic decisions (Hassan, Owolabi and Asikhia 2020: 199). Moreover, financial reporting in SMEs based on stewardship theory goes beyond mere compliance with legal obligations. Its primary objective is to furnish stakeholders with comprehensive and pertinent information, allowing them to get a comprehensive comprehension of

the organisation's financial status and achievements.

Within the realm of small and medium-sized firms in South Africa, stewardship theory emphasises the significance of financial reporting as a means to develop and uphold trust among owners, managers, and stakeholders (Negeri, Wakjira and Kant 2023). Financial reporting in SMEs in South Africa functions as a means for owners and managers to showcase their responsibility and achieve their stewardship obligations. Stewards, owners, and managers are required to behave in the organisation's and its stakeholders' best interests (Hassan, Owolabi, and Asikhia 2020: 199). Financial reporting serves as a method to provide transparency, accountability, and proof of responsible management in the oversight of SMEs in South Africa. The relevance of stewardship theory is particularly pronounced in the context of SMEs in South Africa, where owners and managers maintain intimate contacts and possess a personal vested interest (Akomea-Frimpong 2022: 75).

To summarise, stewardship theory in corporate governance and financial reporting in SMEs in South Africa highlights the significance of trust, responsibility, and responsible stewardship in ensuring the organisation's success and long-term viability. Stewardship theory in corporate governance and financial reporting in SMEs in South Africa highlights the significance of trust, responsibility, and responsible stewardship for ensuring the organisation's success and survival (Akomea-Frimpong 2022: 75). SMEs may improve their corporate governance practices and financial reporting by adhering to the concepts of stewardship theory. This, in turn, will result in better decision-making, increased stakeholder trust, and long-term success (Dumay, La Torre and Farneti 2019: 15).

2.2.3. Stakeholder Theory in corporate governance

The stakeholder theory in corporate governance acknowledges that corporations have an obligation not just to their shareholders but also to a wider array of stakeholders, which including employees. The stakeholder theory posits that firms should include the concerns and welfare of all stakeholders, including workers, customers, suppliers, and the community, when making decisions (Kavadis and Thomsen 2022). This idea posits that by considering the requirements and anxieties of all parties involved, enterprises have the ability to generate worth, establish enduring connections, and

make a positive impact on the general welfare of society (Dumay, La Torre and Farneti 2019: 17).

Within the framework of SMEs in South Africa, the stakeholder theory emphasises the significance of considering the concerns and requirements of different stakeholders, including staff, suppliers, local communities, and consumers (Kavadis and Thomsen 2022). SMEs may bolster their reputation, cultivate trust, and generate a favourable societal influence by giving priority to stakeholder interests and adopting responsible business practices. This approach also enables them to attain long-term sustainability and profitability (Jamil, Ghazali and Nelson 2020: 1256). Furthermore, the stakeholder theory aligns with the stewardship theory by highlighting the importance of responsible decision-making and accountability in corporate governance.

In essence, the stakeholder theory in corporate governance offers a structure for SMEs in South Africa to harmonise their goals and decision-making procedures with the concerns of all pertinent stakeholders (Battilana, Obloj, Pache and Sengul 2022). This alignment ultimately leads to the long-term prosperity of the SMEs and the sustainable progress of the local community in which they function. Manzanegue-Lizano, Alfaro-Cortes, and de la Cruz (2019: 4). Moreover, the stakeholder theory provides insight into the intricate socio-economic context within which SMEs function. It acknowledges that enterprises are interdependent and subject to the impact of other entities such as government agencies, creditors, and the environment (Battilana *et al.* 2022). Thus, by considering the requirements and desires of these interested parties, SMEs may more effectively negotiate these intricacies and guarantee that their financial performance aligns with stakeholder expectations and societal concerns (Manzanegue-Lizano, Alfaro-Cortes, and de la Cruz, 2019: 4). To summarise, incorporating stakeholder theory into corporate governance may play a crucial role in fostering ethical business practices, bolstering reputation, and attaining enduring sustainability and profitability for SMEs in South Africa.

2.2.4 Stakeholder theory in financial reporting

The application of stakeholder theory also encompasses the domain of financial reporting in SMEs. Financial reporting is essential in stakeholder theory since it offers transparency and responsibility to stakeholders regarding an organisation's financial performance and situation. (Harrison, Barney, Freeman, and Phillips 2019: 1). By

using stakeholder theory in financial reporting, SMEs in South Africa may guarantee that pertinent stakeholders are provided with precise and dependable financial information.

This enables stakeholders to make well-informed decisions and evaluate the financial well-being of the SMEs). Moreover, according to Tarmidi, Sari, and Handayani (2020), stakeholder theory in financial reporting highlights the significance of including non-financial data, such as social and environmental effects, into financial reports. This allows stakeholders to have a thorough comprehension of the SME's entire performance and its influence on society and the environment. Lulu (2021: 10) suggests that SMEs in South Africa should showcase their dedication to openness, accountability, and good business practices by implementing stakeholder theory in their financial reporting (Battilana *et al.* 2022).

Stakeholder theory is crucial in influencing the corporate governance practices concerning financial reporting in SMEs. This theory highlights the significance of considering the interests and requirements of different stakeholders in decision-making processes concerning financial reporting (Tarmidi, Sari, and Handayani 2020: 25). By considering the interests of individuals or groups affected by financial reporting, SMEs may bolster their reputation, foster confidence among stakeholders, and boost their connections with investors, lenders, consumers, and other significant stakeholders (Tarmidi, Sari, and Handayani 2020: 25). SMEs in South Africa may prioritise stakeholder interests and align financial reporting with their requirements and expectations by using stakeholder theory in their corporate governance practices.

2.3 Importance of good corporate governance for SME performance

The success of many sizeable organisations is an attribute of good governance. Corporate governance has been hailed as one formidable tool for business sustainability (Radebe 2017: 274). While this has been beneficial to large organisations, SMEs can derive valuable lessons from such experiences to add value to their companies, thus, improving business practices. Subsequently, introduction of the King IV Report gave SMEs the opportunity to improve their position on sustainability in these tempestuous economic conditions.

Corporate governance yields the following benefits that can become a catalyst to the sustainability of SMEs (Radebe, 2017: 274):

Promotion of effective decision-making

Enterprises are constantly faced with decision-making challenges. An effective governance framework encompasses a well-defined strategy, vision, and understanding of the essential competencies necessary for achieving success (Mutambo, Mwange, Manda, Chiseyeng'i, Mashiri and Bwalya 2022: 62). This framework serves as a valuable tool in encouraging decision-makers to evaluate both the immediate and long-term consequences of their actions.

Exceptional management

Good governance is simplified as the synergy of four elements within the company: people, purpose, processes, and performance (Rowan, 2020: 1). As a result, disclosure of performance and accurate aspects such as financial and operational aspects, among others, becomes a reflection of good governance and exceptional management.

Access to finance/ investors

There is a point where a business will need new and external capital. When the SME cannot demonstrate it is efficiently and properly run, new capital becomes difficult to access (Patmore, Vandayar, Small Business Institute and Durban Chamber of Commerce and Industry 2020: 10). The evidence of appropriate management is found in the proper financial records; reports and controls covering a particular period, usually a three-year timeframe. An SMEs that has managed to follow good governance principles will have all of these documented to be in a more suitable position to, subsequently, seek effectively for external finance (Patmore, Vandayar, Small Business Institute and Durban Chamber of Commerce and Industry 2020: 11).

High degree of transparency

Transparency plays a significant role in the practice of good corporate governance (Radebe 2017: 275). Substantially, the policies, procedures, and systems developed and set in the company also require high transparency, regarding continued performance of the business.

Interests of stakeholders.

Stakeholder is defined as any person or organisation that can influence or is influenced by the company's objectives and goals being achieved (Abdulla and Valentine 2009: 3), (Wember 2019: 3). Additionally, he contends that the decision-making procedures can be influenced by a network of connections with different groups. The stakeholder theory thoroughly investigates these relationships and their effect on both the processes and outcomes for the organisation and its stakeholders. According to Donaldson and Preston (1995: 65), (Wember 2019: 2) this theory emphasises the importance of managerial decision-making and considers the interests of all stakeholders equally, without assuming that any one interest is more important than others

Mitigation of risk

The business basically strives for the balance between risk and reward Patmore *et al.* (2020: 11). In a company, the board of directors or management must assemble a risk committee to assess possible risks the company may face (Rathod 2018: 3). Subsequently, assisted by the audit committee or the internal audit Department, in addition to compliance, internal control systems are then developed to mitigate the risk. Therefore, corporate governance ensures management governs, mitigates risk, and guarantees compliance with policy procedures and internal control systems, overall and at every level of the company (Rathod 2018: 2).

Sustainability

SMEs are the driving force of the economy; this statement resonates with the contribution of SMEs to the economies of many developing countries (Mahzan and Yan 2013: 2). Therefore, it comes as no surprise SMEs are immensely supported by the state, through government departments such as Trade and Industry (DTI), accordingly establishing bodies, for example, SEDA that can avail resources to SMEs for enhanced sustainability (Bruwer and Coetzee 2016: 6). Governance requires a business's view to become long-term.

In accordance with the assertions made by Professor Knut Haanaes (2016: 1), sustainability may be succinctly characterised within the business domain as a strategic approach aimed at generating enduring value via the conscientious

assessment of an organisation's operations within the environmental, social, and economic spheres. Kavandis and Thomsen (2023: 200) also asserts that the concept of sustainability is predicated on the belief that the implementation of such methods fosters the long-term viability of a corporation.

With the increasing emphasis on corporate responsibility and the rising prominence of transparency, businesses are acknowledging the imperative to act towards sustainability. Consequently, relying just on professional communications and good intentions is no longer sufficient (Haanaes, 2016: 1).

The monitoring and availability of performance data for SMEs are found to be lacking and insufficient in comparison to their bigger counterparts (Bruwer and Coetzee 2016: 6). Consequently, the measurement of SME sustainability is hindered. This research, along with other scholarly works, aims to investigate the present compliance status of SMEs and the problems that impact their sustainability (Bruwer and Coetzee 2016: 6). The primary area of investigation is to the application of corporate governance practices inside SMEs, as well as their adherence to financial reporting requirements. Good governance is fundamentally about leadership based on an ethical foundation. This is exemplified by the ethical values of responsibility, accountability, fairness, and transparency (Haanaes, 2016: 1). Responsible leader's direct entity strategies and operations to achieve sustainable economic, social, and environmental performance.

2.3.1 Responsibility

Responsibility is essentially making correct decisions and implementing those decisions regarding the entity's assets, to ensure growth and sustainability. (Institute of Directors Southern Africa 2016: 6).

Section 66 (1) of the Companies Act 71 of 2008 states: "The business and affairs of a company must be managed by or under the direction of its board, which has the authority to exercise all of the powers and perform any of the functions of the company, except to the extent that this Act or the company's Memorandum of Incorporation provides otherwise" (The Presidency 2009:132).

"Section 76 of the Act concentrates on the paradigm of conduct expected from directors and extends it beyond the common law duty of directors by compelling them

to act honestly, in good faith, and in a manner, they reasonably believe to be in the best interests of, and for the benefit of, their companies (The Presidency 2009:132).”

“Section 76(3) of the Act states that a director of a company when acting in that capacity, must exercise the powers and perform the functions of a director in good faith and for a proper purpose; in the best interests of the company; and with the degree of care, skill, and diligence that may reasonably be expected of a person carrying out the same functions concerning the company as carried out by that director, and having general knowledge, skill, and experience of that director (The Presidency 2009:132).” In simplest governance logic, directional responsibility is given to the board of directors.

Shareholders are individuals or entities that possess ownership of shares in a certain entity. The ultimate authority over the firm resides with the board. According to the Institute of Directors Southern Africa (2016: 4), shareholders generally possess control over specific reserved topics as prescribed by statute and any extra matters outlined in a company's Memorandum of Incorporation. Within the framework of corporate governance, the authority and accountability for exercising control are vested in the shareholders.

2.3.2. Transparency

Lumentut *et al.* (2017: 51) define transparency as the condition of being open when information is not considered confidential or categorised as a secret. This is a key principle. Transparency may be described as the practise of making information easily accessible and available to all persons that need to utilise it (Serr Synergy, 2020: 2). The manifestation of proficient corporate governance is apparent via the provision and accessibility of financial data, along with other pertinent information concerning the organisation that is crucial for stakeholders to possess knowledge of (Serr Synergy, 2020: 3). Therefore, it can be deduced that transparency cultivates trust in the organisation's competencies and the efficacy of the board of directors.

2.3.3 Accountability

According to a source (smesouthafrica.com, 2016: 1), it is necessary for all types of organisations to enhance their level of accountability towards different stakeholders. This can be achieved by ensuring transparency in disclosing business activities, implementing stricter accounting standards, and adhering to laws and regulations (smesouthafrica.com, 2016: 1). Moreover, it is crucial for directors to fulfil their duties with integrity, responsibility, and thoroughness. In contemporary corporate practise, the concepts of accountability and transparency have assumed significant importance (Cadbury 1992).

Consistent with this prevailing pattern, the Companies Act 71 of 2008 introduces heightened standards of openness and accountability for all corporations (smesouthafrica.com, 2016: 2). Numerous SMEs inquire about the applicability of the principles of accountability and transparency, pondering whether these concepts exclusively pertain to larger enterprises within their industry. The legislation is applicable to organisations of all sizes, irrespective of their scale, and failure to adhere to its provisions may lead to the imposition of penalties.

2.3.4 Fairness

Fairness is a core element of corporate governance, ensuring that all stakeholders, including shareholders, employees, and suppliers, are treated equitably. Fairness extends to decision-making processes, ensuring that everyone has an equal opportunity to voice their concerns and that decisions are made impartially (Institute of Directors Southern Africa 2016: 7).

2.3.5 Independence

Independence is a fundamental principle of corporate governance that ensures the board of directors can make decisions objectively and without external influence. Independent directors play a crucial role in overseeing the company's management and providing an unbiased perspective on strategic matters (Institute of Directors Southern Africa 2016a: 6). Their independence helps prevent conflicts of interest and promotes the fair treatment of all stakeholders.

In summary, the board of directors must demonstrate self-control and autonomy in decision-making, openness in financial disclosure and executive remuneration, and answerability to shareholders and stakeholders. By adopting these principles, organisations can create a structure that supports long-term plans and harmonises the interests of all involved parties (Robertson, Krasodomska, and Dyczkowska, J 2022). Additionally, corporate governance principles aid in outlining the anticipated behaviours, duties, and entitlements of varied stakeholders within the company thus facilitating the establishment of an efficient and transparent corporate framework (Institute of Directors Southern Africa 2016: 6). Emphasising honesty, uprightness, and fairness helps promote transparency while enhancing ethical practices for sustainable business operations. Furthermore, corporate governance principles emphasise the importance of establishing clear roles and responsibilities for the board of directors, ensuring diversity and independence among board members, and fostering effective communication and collaboration between the board and management (Robertson, Krasodomska, and Dyczkowska, J 2022).

2.4. Global history and development of corporate governance for SMEs

The evolution of corporate governance for SMEs has been influenced by a multitude of variables throughout its global history and growth governance (Bhojar, Divekar, and Nagendra 2019: 49). These considerations encompass the increasing acknowledgement of the significance of SMEs in economic progress, the necessity to tackle governance obstacles that are unique to small and medium-sized firms, and the impact of international standards and guidelines. Consequently, there has been a growing emphasis on advocating for effective corporate governance standards in the SME sector.

Consequently, there has been a creation of specialised regulations and standards designed specifically for SMEs, along with efforts to provide knowledge and assistance for SMEs in successfully adopting corporate governance (Bhojar, Divekar, and Nagendra 2019: 50). Significant milestones in the worldwide history and advancement of corporate governance for SMEs encompass the creation of the International Finance Corporation Corporate Governance Programme in 2001 (Shariff, Abidin, and Bahar 2018: 449). This programme was designed to enhance corporate governance standards in emerging markets, specifically targeting SMEs. Furthermore, the

Organisation for Economic Co-operation and Development has been instrumental in advancing corporate governance concepts and practices on a worldwide scale, encompassing small and medium-sized enterprises. Additionally, both regional organisations and national governments have acknowledged the significance of corporate governance for SMEs and have implemented measures to improve its implementation (Bhojar, Divekar and Nagendra 2019: 50).

The implementation of these efforts is based on the recognition that effective corporate governance may provide several advantages for SMEs, including greater availability of financial assistance, heightened responsibility and trustworthiness, and better development and durability (Rasid, Zain, and Yaacob 2022: 88). Moreover, scholarly investigations have elucidated the favourable influence of corporate governance on the internal efficacy of SMEs, as well as their capacity to allure foreign investment and surmount financial limitations (Corsi and Prencipe 2017: 704).

In general, the establishment and progress of corporate governance for SMEs have been shaped by acknowledging the sector's significance, addressing unique issues encountered by SMEs, and striving to enhance their growth and sustainability by implementing effective governance measures.

2.5. Global history and development of financial reporting for SMEs

Global financial reporting for SMEs has experienced substantial transformations and advancements (Khundadze and Amiridze 2018: 46). The motivation behind these modifications stems from the acknowledgment that conventional financial reporting standards, originally intended for bigger corporations, may not be appropriate for SMEs due to their distinct attributes and requirements. In response to this issue, specialised bodies like the International Financial Reporting Standards for Small and Medium-sized Entities have been created with the purpose of formulating financial reporting standards that are especially designed for SMEs (Cahyaningtyas 2017: 59). The objective of these standards is to streamline the financial reporting procedure for SMEs, minimise the expenses linked to regulatory adherence, and furnish pertinent and dependable information to interested parties. Consequently, SMEs can gain advantages such as enhanced financial clarity, enhanced capital availability, and heightened trust from investors and lenders (Khundadze and Amiridze 2018: 48).

In addition, the evolution of financial reporting for SMEs has been influenced by the increasing acknowledgment of the significance of SMEs in different economies, the necessity to foster entrepreneurship and the growth of small businesses, and the aspiration for standardisation of financial reporting methods worldwide (Khundadze and Amiridze 2018: 49). Consequently, governments worldwide have been embracing and modifying these standards to align with their specific local requirements and conditions. This has resulted in increased uniformity and standardisation in financial reporting for SMEs on a worldwide scale, which has made it easier to make cross-border investments and has improved the competitiveness of SMEs in the global market.

2.6 Development and growth of governance roles in SMEs

A governance framework creates stable relationships between shareholders, the board, and management. Roles may be performed by the same individual in some SMEs.

2.6.1 Very small entities

During the early phases, small and medium-sized firms frequently start with a sole proprietor who has the task of determining the business's general direction, making management decisions, and supervising daily activities (IODSA 2016a: 4). As a result, the owner exercises complete authority over all facets of the organisation while concurrently fulfilling each of these governance tasks.

2.6.2 Small entities

As the small or medium-sized organisation undergoes growth and evolves into either a partnership or private corporation, there arises a growing need to engage in the recruitment of supplementary personnel and managers to effectively manage the day-to-day operations (IODSA 2016a: 4). This transition occurs when business owners frequently encounter more involvement in the supervision of their enterprises, rather than direct engagement in their daily operations, primarily owing to limitations on their time. Consequently, their engagement in operational affairs declines, while their responsibilities as shareholders and board members assume more prominence (IODSA 2016a: 5).

2.6.3 Medium entities

As SMEs in South Africa progress to the medium-sized stage, the establishment and implementation of governance responsibilities becomes increasingly vital. During this phase, small and medium-sized enterprises frequently encounter more intricate obstacles and need a heightened degree of strategic planning (IODSA 2016a: 5). To tackle these difficulties, SMEs in South Africa have begun to hire specialised governance experts, such as board directors and chief governance officers, who are accountable for supervising the governance procedures and guaranteeing adherence to legislation and optimal methods. Moreover, the expansion of Small and Medium Enterprises (SMEs) in South Africa has resulted in a heightened emphasis on the implementation of corporate governance principles (Cahyaningtyas 2017: 40).

SMEs are currently adopting codes of conduct, ethical standards, and risk management frameworks to guarantee their operations are conducted in a responsible and sustainable manner (Cahyaningtyas 2017: 44). The expansion of SMEs in South Africa has required the establishment of governance positions inside these companies. The importance of developing governance positions becomes increasingly crucial as SMEs in South Africa continue to expand.

2.7 King Code IV

Direct and control are the two main ideas in this definition as corporate governance is a framework that governs how businesses are run. The concept of corporate governance aims to achieve equilibrium and foster a harmonious relationship among these forces, which is often seen as a manifestation of effective governance (Denters, Ginther, de Waart 2023). Subsequent iterations of codes were established to encapsulate the fundamental ideas that underpin the implementation of effective governance practices.

The King's Code is a non-legislative framework that is founded upon a set of philosophies and practices. Although the code is not mandatory and lacks legal enforceability, it is worth noting that certain ideas outlined within it have been incorporated into the Companies Act 71 of 2008, reflecting the evolving nature of South African legislation (Thakhathi, Jongh, Langeni 2021: 474). The idea of the code encompasses three fundamental components: governance, sustainability, and social

responsibility. The concept of effective and ethical leadership may be fundamentally understood as synonymous with the notion of good governance (Cadbury 1992). Kings IV continues to uphold a shared characteristic with its previous iterations, namely the inclusion of stakeholders (Ramalho 2020: 174). This emphasis underscores the notion that entities do not function in isolation and are not only accountable for financial gains. Organisations function within a societal framework and hence have the responsibility of conscientiously evaluating the impact of their activities on both the environment and the broader community. Below are the fundamentals of the King Code IV as well as evidence of effective governance when implemented in the business (Ramalho 2020: 174-175).

2.7.1 Fundamentals of King Code IV

There has been a significant rise in the practise of reporting, which serves to enhance openness and promote greater transparency.

The increased ease of access to many organisations across multiple industries.

Enhanced ease of comprehension and use within organisational contexts.

The primary emphasis is placed on employing an outcome-based approach to achieve effective governance.

The act of establishing governing organisations and achieving independence can be offset.

The allocation of responsibilities to both management and committees

The provision of corporate governance services to the governing body and the availability of competent specialists to provide advice on this matter.

Evaluations of the governing body's performance.

The committee of the board: Social and Ethics

Gaining a comprehensive understanding of the complexity of risk and establishing effective mechanisms for its oversight.

The adherence to regulations and the regular surveillance of the regulatory landscape.

Enhanced accountability regarding wage practices is crucial, emphasising fairness, responsibility, and addressing disparities between CEOs and employees at the lower end of the salary spectrum.

The proposal entails granting shareholders the opportunity to participate in a non-binding consultative vote over the pay strategy for individual stakeholders.

This paper aims to introduce a combined assurance model and explore the exercise of judgement in evaluating the effectiveness of the control environment.

The potential implementation of mandatory rotation of audit firms and perspectives on achieving audit excellence.

The implementation of a tax policy that is both accountable and characterised by transparency.

There is a significant focus on shareholder activism.

The acknowledgement and adoption of conflict resolution mechanisms and associated procedures.

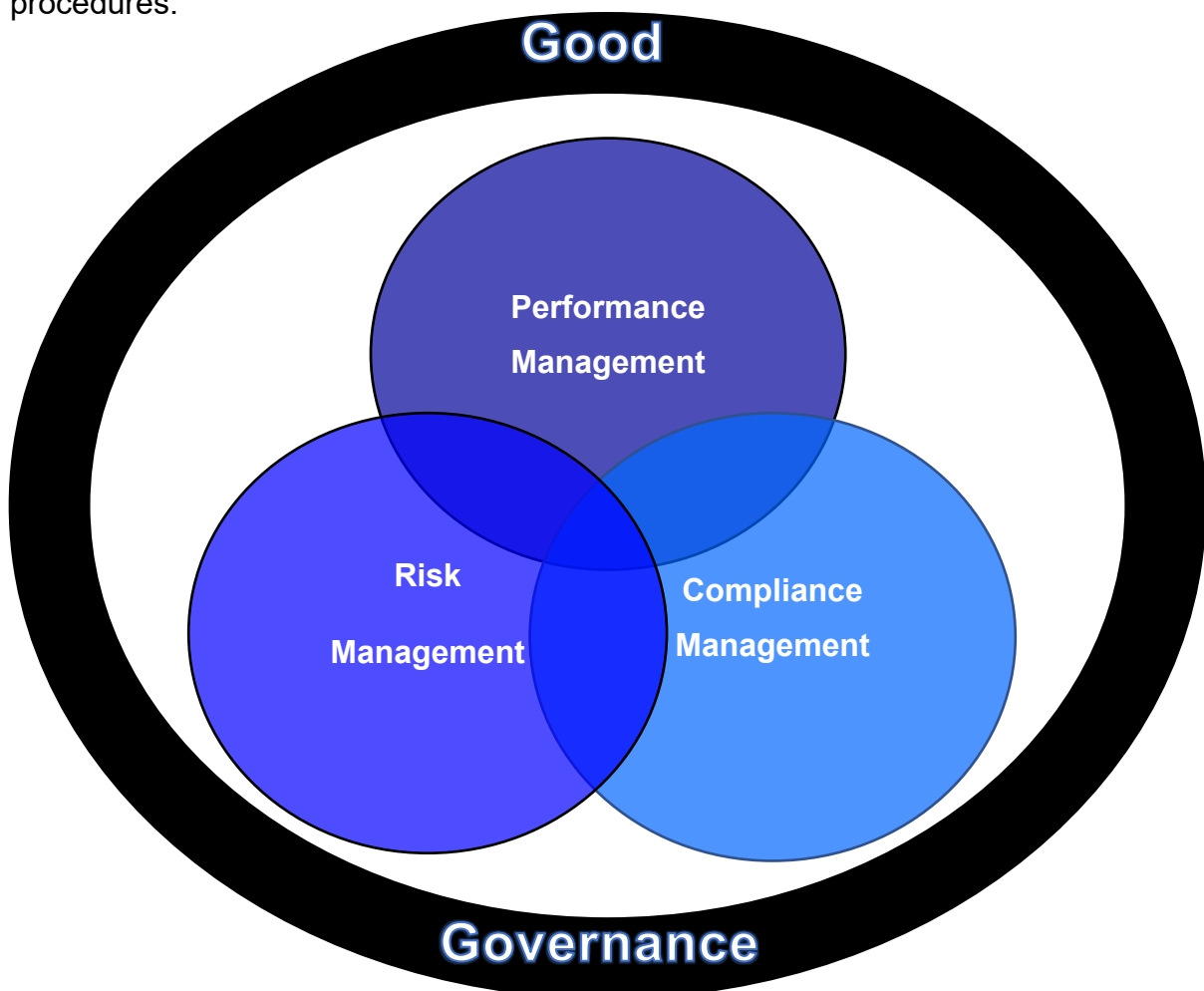


Figure 2.3: Fundamentals of good governance SAIPA (2018a)

2.7.2 Good governance

Good governance in a company refers to the practices, processes, and structures that allow for effective decision-making, accountability, transparency, and the protection of stakeholders' interests. It is about establishing a framework that promotes integrity, ethical behaviour, and responsible management to ensure the long-term success and sustainability of the organisation (Ekasari and Noegroho 2020 :554). Good governance in a company involves creating a culture of responsible and ethical behaviour, ensuring transparency in decision-making processes, and holding management accountable for their actions. It also involves the active involvement and participation of stakeholders, including shareholders, employees, customers, and the community, in the governance process (Ekasari and Noegroho 2020 :554).

2.7.2.1 Good governance in performance management

Good governance in performance management involves establishing clear and measurable goals, regularly monitoring performance against these goals, and holding individuals and teams accountable for their performance. It also includes providing resources and support to employees to help them achieve their goals, promoting transparency and communication about performance expectations, and implementing fair and objective evaluation criteria (Candradewi and Rahyuda 2021: 146). Additionally, good governance in performance management involves fostering a culture of continuous improvement, where feedback and learning are encouraged, and where decisions are based on data and evidence rather than personal biases or preferences (KPMG Global 2023: 1). This helps to ensure that the organisation is operating efficiently and effectively, and that resources are being allocated appropriately to achieve the desired outcomes. Good governance in performance of the company ensures that resources are optimally utilised, minimising chances of financial distress (Candradewi and Rahyuda 2021 :146).

2.7.2.2 Good governance in risk management

Good governance in risk management entails establishing effective risk assessment and mitigation processes, ensuring clear and transparent communication about risks,

and implementing appropriate controls and procedures to manage and mitigate risks effectively.

Good governance in risk management also involves regularly reviewing and updating risk management policies and procedures, conducting thorough and independent audits of risk management practices, and fostering a culture of risk awareness and accountability throughout the organisation (Abu-Rumman 2021: 1333). Good governance in risk management is essential for ensuring that risks are identified, assessed, and managed effectively to protect the organisation and its stakeholders. Abu-Rumman (2021: 1333) further states that it is critical for minimizing the potential negative impacts of risks and maximizing opportunities for growth and success.

2.7.2.3 Good governance in compliance management

Good governance in compliance management involves establishing and implementing policies, procedures, and controls to ensure that the organisation complies with relevant laws, regulations, and industry standards. It also includes regularly monitoring and assessing compliance with these requirements, conducting internal audits to identify areas of non-compliance, and taking appropriate remedial actions to address any identified compliance issues (KPMG Global 2023: 1). Good governance in compliance management also encompasses promoting a culture of ethics and integrity within the organisation, providing training and education on compliance requirements, and establishing mechanisms for reporting and addressing potential compliance violations or ethical concerns. Good governance in compliance management is crucial for maintaining the organisation's reputation, mitigating legal and regulatory risk, and fostering trust with stakeholders (Rahmasari and Setiawan 2022).

2.7.3 The major differences in King IV

King III mandated companies to "apply or provide justification" for the principles, particularly when it comes to the principles' relevance (le Roux 2010). In contrast, King IV assumes that all principles are applied and necessitates that entities elucidate on the manner in which they are implemented. This approach is commonly known as the 'apply and explain' philosophy (IODSA 2016a: 2).

King IV has been streamlined to incorporate 17 consolidated principles, in contrast to the 75 principles found in King III. Additionally, King IV adopts a principle- and outcome-based approach rather than a rule-based approach. The remuneration of directors is given a more significant role, despite the fact that it only requires a non-binding advisory shareholder vote (Ramalho 2020: 174). King IV not only recognizes information as a corporate asset separate from technology, but also emphasizes the need for its protection and enhancement through governance structures. Another important aspect of King IV is that it holds active stakeholders accountable for the actions and disclosures of the Board (IODSA 2016a: 2). Similar to King III, the governance framework of the company must be agreed upon and implemented by the company board, rather than any subsidiary boards. Furthermore, King IV includes several sector supplements that aim to facilitate the interpretation and application of the principles in various contexts, situations, and legislative regimes, thereby allowing for some degree of flexibility (KPMG Global 2023: 2). King IV is a simplified successor of the previous King Reports. Its 'apply and explain' philosophy ensures accountability and transparency in the disclosure of company information, as well as the availability of relevant information to relevant stakeholders, for relevant decision-making. More importantly, King IV is designed for uncomplicated implementation by SMEs (Ramalho 2020: 173).

Benefits of corporate governance for SMEs include sustainable growth, which requires business to essentially seek to strike a balance between risk and reward; this balance is at the core of business success (KPMG Global 2023: 1).

2.8 Reliable financial reporting concept in Durban SME sector

When the first International Financial Reporting Standards (IFRS) were introduced, small and medium-sized businesses (SMEs) were thought to be forced to pay high financial reporting costs and to produce financial statements that might not be very relevant to the people who would be receiving them (IFRS Foundation, 2017:1). The International Financial Reporting Standards (IFRS) for SMEs were introduced by the International Accounting Standards Board (IASB) in 2009. The decision was taken in acknowledgment of the need for streamlined and financially feasible reporting rules designed exclusively for the small and medium-sized enterprise (SME) sector. The first implementation of the International Financial Reporting Standards (IFRS) was

widely seen as complex and financially onerous for small and medium-sized firms (SMEs). The official release date of the International Financial Reporting Standards (IFRS) for SMEs was July 9, 2009. South Africa (SA) has emerged as the pioneering nation in adopting the financial reporting requirements specifically designed for SMEs. Based on the findings of IASPlus (2015:1), it has been observed that a comprehensive worldwide adoption of the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) has been undertaken by a total of 84 countries. The definition of SMEs will be established according to the International Accounting Standards Board (IASB) guidelines. This will enable the assessment of the extent to which International Financial Reporting Standards (IFRS) are implemented and the credibility of financial reporting by SMEs.

2.9 Defining SMEs

The definition of SMEs is prone to variation depending on the specific context being discussed. Consequently, there are several interpretations and criteria for classifying an enterprise as a SME. The phrase in question seems to have a broad application, encompassing a wide range of ownership arrangements that span from small-scale to larger businesses (Maseko and Manyani 2011). Moreover, it should be noted that there exists no singular definition that comprehensively encompasses the limitations of the notion in relation to dimensions such as size, industry, and stage of growth (Maseko and Manyani 2011).

The International Accounting Standards Board (IASB) recognises that several jurisdictions have formulated their own interpretation of the concept of SMEs in order to meet varying criteria. Several definitions of 'legislations and regulations' incorporate measurable criteria such as an organisation's income, assets, personnel, and other relevant factors. The phrase encompasses both micro and very tiny businesses, hence lacking the ability to differentiate whether these firms produce general purpose financial statements (IASB 2015). In the region of Durban, KwaZulu-Natal, several legislative measures, including the National Small Business Act and the Companies Act, have provided distinct definitions for SMEs. The International Accounting Standards Board (IASB) has also formulated its own definition in order to establish more exact criteria for determining the entities that are eligible to use the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs).

Due to the existing inadequate condition of financial information provided for funding SMEs in Durban, it is necessary to enhance and introduce new methods for ensuring dependable financial reporting. This will facilitate the establishment of a market for business finance that extends outside conventional banking channels. The significance of allocating resources to financial management practices, specifically in the areas of financial reporting and analysis, for SMEs in Durban was emphasised in a subsequent study performed by (Balagobei, 2019).

The researchers highlighted that the capacity of small and medium enterprises (SMEs) in Durban to allure potential sources of funding, such as venture capital investors and angel investors, is greatly contingent on their proficiency in enhancing their financial record keeping, encompassing cash flows and income statements (Guti and Cheresai, 2022).

Furthermore, financial institutions have a pivotal role in providing funding for SMEs. These organisations evaluate loan applications by examining financial documents and reports provided by SMEs.

There is a strong focus on the requirement for SMEs in Durban to comply with international financial reporting standards and submit audited financial accounts. Durban SMEs have obstacles in effectively managing their finances, which impairs their capacity to clearly articulate their funding requirements and deliver dependable financial reporting (Balagobei, 2019). Considering the present absence of dependable financial reporting methods in SMEs in Durban, it is evident that there is a distinct want for enhancement and originality in this domain.

2.9.1 International Accounting Standards Board (IASB) SME definition

IASB was faced with a gruelling task as its first objective was to define SMEs, in order to develop IFRS for SMEs. Unfortunately, SMEs have a fluid definition and a decision, therefore, needed to be made concerning the class of entities IFRS for SMEs would be intended for. Such a decision, however, ultimately rests with the bodies responsible for setting standards, as well as national regulatory authorities. For easier application and implementation of IFRS for SMEs, the IASB had to, subsequently, define SMEs clearly and concisely.

Section 1 of the IFRS for SMEs describes the characteristics of SMEs as follows:

- (a) Are not required to be accountable to the public.
- (b) “Publish general purpose financial statements for external users” Pacter (2009): 31).

An entity has public accountability when:

- (a) “Its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading on a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or”
- (b) “It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses” (IASB 2015a).

This definition visualised by the IASB was not restricted to one form of legal ownership and neither was the element of size measured to define an SME Rossouw and van Wyk (2009). In this regard, the IASB noted its standards are used in several countries, thus making any form of quantification difficult. Jurisdictions may, however, choose to prescribe either quantified size criteria or what is meant by economically significant for prescribing the IFRS for SME for use by entities (IASB 2015b). Consequently, the definition of an SME is not restricted to private companies but may also include other legal forms or micro-entities such as sole traders, partnerships, trusts, and non-profit organisations Rossouw and van Wyk (2009): 35).

2.10 National Small Business Act defines SMEs

The National Small Business Act 29 of 2004 classifies small businesses as micro, very small, small, or medium-sized (SMMEs), according to an intricate set of limits per industry (Gazette 2004). According to the National Small Business Act 29 of 2004 the DTI defines a “small business as a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column I of the Schedule and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule opposite the smallest relevant size or class as mentioned in column 2 of the Schedule” (Gazette 2004). Furthermore, According to Government Gazette (2019), Minister Lindiwe Sisulu made amendments to the definition of SME in the NSB Act, acting in terms of Section

20 (2), by merging the categories of micro and very small business as well as removing the total asset value as part of the criteria that defines SMEs.

SCHEDULE 1

The new National Small Enterprise Act thresholds for defining enterprise size classes by sector, using two proxies

Column 1	Column 2	Column 3	Column 4
Sectors or sub-sectors in accordance with the Standard Industrial Classification	Size or class of enterprise	Total full-time equivalent of paid employees	Total annual turnover
Agriculture	Medium	51 - 250	≤ 35,0 million
	Small	11- 50	≤ 17,0 million
	Micro	0 – 10	≤ 7,0 million
Mining and Quarrying	Medium	51 - 250	≤ 210,0 million
	Small	11- 50	≤ 50,0 million
	Micro	0 – 10	≤ 15,0 million
Manufacturing	Medium	51 - 250	≤ 170,0 million
	Small	11- 50	≤ 50,0 million
	Micro	0 – 10	≤ 10,0 million
Electricity, Gas and Water	Medium	51 - 250	≤ 180,0 million
	Small	11- 50	≤ 60,0 million
	Micro	0- 10	≤ 10,0 million
Construction	Medium	51 - 250	≤ 170,0 million
	Small	11- 50	≤ 75,0 million
	Micro	0- 10	≤ 10,0 million
Retail, motor trade and repair services.	Medium	51 - 250	≤ 80,0 million
	Small	11- 50	≤ 25,0 million
	Micro	0 – 10	≤ 7,5 million
Wholesale	Medium	51 - 250	≤ 220,0 million
	Small	11- 50	≤ 80,0 million
	Micro	0 – 10	≤ 20,0 million
Catering, Accommodation and other Trade	Medium	51 - 250	≤ 40,0 million
	Small	11- 50	≤ 15,0 million
	Micro	0 – 10	≤ 5,0 million
Transport, Storage and Communications	Medium	51 - 250	≤ 140,0 million
	Small	11- 50	≤ 45,0 million
	Micro	0 – 10	≤ 7,5 million
Finance and Business Services	Medium	51 - 250	≤ 85,0 million
	Small	11- 50	≤ 35,0 million
	Micro	0- 10	≤ 7,5 million
Community, Social and Personal Services	Medium	51 - 250	≤ 70,0 million
	Small	11- 50	≤ 22,0 million
	Micro	0 – 10	≤ 5,0 million

Table 2.1: Schedule 1

(Government Gazette, 2019:11)

The categorisation of SME sizes is acknowledged by The National Small Business Act. However, this research study does not delve into the intricate thresholds used by the Act to determine an entity's classification as an SME. Consequently, this aspect of the definition is not further examined in this context. What holds importance is that these SMEs encompass both formally registered enterprises like close corporations, private companies, and cooperative entities, as well as informal enterprises like street trading enterprises and backyard manufacturing and services. Entities situated towards the higher end of the spectrum are comparable to SMEs in developed nations (DTI 2008a). Hence, the definition of an SME for this research study solely encompasses formally registered enterprises.

2.11 Scope of financial reporting regulations and objectives

2.11.1 Financial reporting regulations

A financial reporting framework is a set of standards used to determine the measurement, recognition, presentation, and disclosure of all material items in the financial statements. Subsequently, in some instances, the preparation of all financial statements is done under a financial reporting framework (Lekhanya 2013: 125). According to UNCTAD (2016): 5), as the accounting regulatory framework for financial reporting, the IFRS has proven to be a mammoth and costly task for SMEs, because management and reporting skills are severely lacking. For this reason, the framework for SME financial reporting has been developed and is meant to make SME financial statement preparation and presentation easier (Lekhanya 2013: 126).

2.11.2 Financial reporting objectives

The objective of a SME financial report is simply to supply information pertaining to the financial performance, liquidity position, as well as cash flow of the business. This financial information reflected on the financial statement is utilised for economic decision-making purposes according to their needs (SAIPA 2018b: 24).

Ystrom (2019: 16), however, states one cannot simply generalise the concept of the financial reporting purpose without perspective and the level of analysis, as it may have different meanings according to the chosen definition of its purpose. On the one hand, the objective of financial reporting may refer to different uses such as, the assessment of management performance by the shareholders or bankers on

formulating credit decisions. On the other hand, the objective may be discussed on a more general level, aimed at fulfilling the overall financial reporting purpose (Ystrom 2019: 16).

According to the above accounting literature, the purpose of financial reporting is deliberated in accordance with two approaches, namely stewardship/accountability and decision-usefulness.

- **Stewardship Approach**

EFRAG, ASB, DRSC, KSRJ, OIC, SR and CNC (2007): 9) provide an understanding that stewardship is closely linked to agency theory, which is the discord or misalignment of goals and desires between the company agents (board of directors) and the principals (owners/shareholders).

Stewardship is the accountability of agents/ managers to the owners of the entity, regarding the utilisation of resources entrusted to them. This information must be evident in company financial reports, providing shareholders with the capability to make decisions whether to hold or sell their shares or investments, as well as whether to reappoint or replace the management or board of directors EFRAG *et al.* (2007): 9).

It is, therefore, critical to establish a sound and solid board of directors as an essential building block to corporate governance. Furthermore, a progressive dialogue will, thus, be enabled between shareholders and the board of directors.

- **Decision-usefulness approach**

In the decision-useful approach, Ystrom (2019: 16) states the purpose of financial reporting is to provide users with information on which to base future economic decisions that are also, as stated previously, to hold or sell investment, including the decision for potential investors to invest in the entity. The financial information should, according to Soyinka (2017: 162), provide a picture of the financial performance of the business, as well as its foreseeable future cash flow generation capabilities. Furthermore, the usefulness of the financial information presented in the financial report must enable the users to approximate the value of the entity.

- **Reliability in financial reporting**

External users expect to receive reliable financial reports. Soyinka (2017: 162) defines reliability as the level of quality that makes reasonably certain the information is free from error and bias. The financial information in the report must withstand the scrutiny by external users and others with access to the information, the key, therefore, lies in the transparency of preparation, as well as management accountability (Soyinka 2017: 162) in the financial report. An audit can provide significant assurance there is reliability in the financial reporting.

According to IAS (1: 9), general purpose financial reports must provide user information, with regard to:

- Assets;
- Liabilities;
- Equity;
- Income and Expenses, which include gains and losses;
- Contribution by owners and distributors to owners (per their stake or shares);
- Cash flow in and out of the business.

(Deloitte 2007: 2)

Financial reports must also reflect the way corporate governance principles were applied and carried out by the board of directors, through their fiduciary responsibility given by the shareholders and regulations. Financial statements must contain a high level of accountability and transparency in the utilisation of company resources entrusted to the board SAIPA (2018b): 24), in essence, concurring with the stewardship/accountability approach. Furthermore, financial statements that have been audited hold more quality and accuracy.

The influence of an audit on the financial reports of SMEs can be significant. Audited financial statements provide a higher level of assurance and credibility to the financial information presented by SMEs. This can have several positive effects on the SME's operations and relationships with stakeholders:

Improved Investor Confidence: Shareholders and potential shareholders are more likely to have confidence in the financial reports of SMEs that have been audited. This confidence can lead to increased investment and support for the SME's growth.

Strengthened Creditworthiness: Audited financial statements can enhance the creditworthiness of SMEs in the eyes of lenders. This is because audited financial statements provide an independent assessment of the SME's financial performance and stability, which gives lenders more confidence in the SME's ability to repay loans and meet their financial obligations (Asah and Louw 2021:3).

Enhanced Corporate Governance: The audit process helps to promote good corporate governance practices within SMEs. This includes ensuring transparency, accountability, and reliability in the preparation of financial statements.

Easier Access to Financing: When SMEs can provide audited financial statements, banks and other financial institutions are more likely to offer financing options. This is because audited financial statements provide a higher level of assurance and credibility, making it easier for lenders to assess the SME's financial health and make informed decisions regarding loan approvals (Jonathan Ariefianto. and Widuri, R., 2021: 161).

Therefore, obtaining an audit can have a significant positive impact on the financial structure of SMEs by increasing investor confidence, strengthening creditworthiness, enhancing corporate disclosure, and facilitating access to financing options. Overall, the use of an audit can greatly benefit SMEs by improving the quality and credibility of their financial reports, which in turn enhances their relationships with investors, lenders, and other stakeholders.

2.11.3 Scope

IAS 1 applies to all general-purpose financial statements; therefore, SMEs are included in IAS 1, which applies to statements prepared and presented in accordance with IFRS (IAS 1.2). General purpose financial statements furnish users with information tailored to their requirements, since they do not require financial statements (Delloite 2007: 2), in essence, concurring with the decision-useful approach.

2.11.4 Going concern

Financial statements are prepared on the assumption the business will continue into, but not limited to, the following financial year (next 12 months) and management is obligated to declare this note in the financial statement. Should the company no longer be a going concern, management needs to declare this, as well as the subsequent intention of liquidating the business or seizure of trading (IAS 1.25).

Financial reports prepared on a going concern basis provide crucial information about a company's financial health and sustainability. They indicate whether the company is able to continue operating in the foreseeable future and meet its financial obligations. This information is essential for various stakeholders such as investors, creditors, and stakeholders who rely on financial statements to make informed decisions (Jan 2018: 1).

As previously mentioned, the financial information prepared based on a going concern is essential for investors, creditors, and other stakeholders in assessing the company's viability and making informed decisions. Investors rely on financial statements to make informed decisions about whether to buy, hold, or sell a company's stock. Creditors also use this information to assess the company's creditworthiness and determine whether to extend credit or loans.

Additionally, management uses financial statements to evaluate the company's performance, identify areas for improvement, and make strategic decisions. The punctuality of disclosing financial statements is crucial, as it affects the reliability of the information and influences stakeholders' decision-making. Moreover, the impact of events like the Covid-19 pandemic further emphasizes the need for timely and accurate financial reporting. Financial ratios, which are derived from financial statements, provide deeper insights into a company's performance by analyzing relationships between different financial variables (L, R, M. and Mishra 2021). These ratios help in evaluating the company's liquidity, solvency, profitability, and efficiency. By analyzing financial statements and using financial ratios, stakeholders can gain a comprehensive understanding of a company's financial performance and make well-informed decisions. In summary, financial statements serve as valuable sources of

information for various users, including management, investors, creditors, and the government (Hartati, Martini, Yanto, Astuti, Ibrahim 2022: 120).

2.12 Exogenous challenges faced by SMEs

SMEs are the lifeblood of a developing country such as SA. Unfortunately, SMEs are the very same businesses that are most susceptible to failure. Whereas the internal environment is a factor that plays a role inside the business, sustained SME success is influenced by the business environment, which comprises factors both inside and outside of the entity, playing a significant and vital role in the growth and sustainability of the business (Hossenninia and Ramezani 2016:2). The challenges outside the business that affect its operations are referred to as the external environment. Concurrently, the business environment changes and the sustainability of the entity may be negatively or positively affected by these changes Sitharam and Muhammad (2016): 278).

In this study, the factors that affect SMEs in Durban both inside and outside the enterprise, as well as their consequence to the business, will therefore be explored. The objective is to find mechanisms that can be utilised to alleviate or improve the situation for the better in SMEs, thus lifting the economic status of the current slump they find themselves in. SMEs, however, face sizeable challenges because of their character, including smallness, tremendous competition from large counterparts, low reserves, and constrained capacity to work from home, as well as limited access to technology, lack of access to credit, and a poor skills base. Additional challenges consist of unsupportive policy and legal frameworks, limited access to external markets, and limited access to an arrangement such as space, electricity, and more KwaZulu-Natal (2020): para 4).

2.12.1 Politics

It is abundantly clear SMEs are the lifeblood of many local and international developing economies. The development journey for SMEs has, moreover, not been easy, particularly for black-owned small businesses against the backdrop of a government transitioning from the Apartheid regime to post-Apartheid. Nonetheless, SMEs play an

important role in the decrease of unemployment, while they are also a fertile ground for technological advances and innovation Gopaul and Manley (2015: 307): 307).

Studies agree regarding the necessity and contribution of SMEs to an economy; however, the failure rate of SMEs is extremely concerning. It is approximated the failure rate of SMEs in the first three to four years is greater than 72 percent. Van Scheers (2016:2) states within the first year, 40 percent new SMEs fail, within the second year, 60 percent go out of business, and an astounding 90 percent fail within 10 years of operation.

Lack of management and strategy-formulation skills, finance access and management, as well as inadequate market access and lack of efficient technology, are contributions to the astronomical failure rate of new SMEs; consequently, government intervention and assistance become extremely important.

The South African government is a democratic constituency, utilising a three-tiered system, of national, provincial, and local levels of government with their respective executive as well as legislative authority, in addition to an independent judiciary South African Government (2020).

The governmental realms are seen to be unique, connected, and mutually reliant. All of these entities, however, function in accordance with the Constitution, as well as the laws and policies established by the national Parliament (Department of Cooperative Governance 2021:1). The promotion and support of SMEs are crucial components across all sectors, since they contribute to job creation and enhance the quality of life.

2.12.1.1 Small Enterprise Development Agency (SEDA)

Through the amendments of the National Small Business Act, Act 29 of 2004, Small Enterprise Development Agency (SEDA) was established in December 2004. SEDA is an agency formed and managed by the Department of Small Business Development SEDA (2016): 1).

Implementing government small business plans is SEDA's mandate. In addition, there is a requirement to create and execute a unified delivery network for the purpose of fostering small company growth. This initiative involves the substantial integration of government-funded support agencies across several levels of governance (SEDA 2016: 1). The primary aim of SEDA's establishment is to foster the advancement,

assistance, and advocacy of small enterprises across the nation, guaranteeing their expansion and endurance. This is achieved through collaboration and cooperation with diverse stakeholders, including international partners, who provide local entrepreneurs with access to global best practices (SEDA 2016: 1). However, achieving this target is a significant problem for SEDA, as it now struggles to meet its intended goal.

The SEDA report also indicated SEDA (2016: 1) that efforts are being made to provide valuable aid to small businesses, however, small businesses appear to still face obstacles such as, lack of access to funding, market to serve, deficiency of a one-stop office, and the hesitancy of service providers to enter into a contract with the agency. In other words, due to high political volatility, with government agencies finding it difficult to implement policies and their systems proving to be inefficient. Furthermore, inter-departmental communication is low, resulting in duplication of tasks and data, which significantly increase operating costs, as well as turn-around time for service delivery for agencies (Department of small business development 2017: 2). SMEs experience the following challenges relating to the political canvas of SA.

2.12.1.2 The Judicial system

SMEs provide a fertile ground for technological advancements and innovation, hence the importance of a functioning enforcement system that can protect intellectual property. According to South African Government (2022) Judiciary that is strong and reliable can play a vital role of being a legal shield, protecting against the infringement of intellectual property rights. The judiciary will be enforcers of contracts between parties, implement competition laws, as well be administrators of company law. Furthermore, operate in a manner independent of interference and ensure fair treatment towards every case and person.

2.12.1.3 Cost of red tape and compliance

It is understood and accepted there are regulations businesses must comply with to continue operating in the country, set by the government.

Although each of the government's three spheres has a holistic responsibility towards refining the regulatory environment for small enterprises, municipalities, in particular, have a pivotal role to play in ensuring the precise local business environments in their

dominion exploit opportunities for shared economic growth and development (Christensen, Hegazy and Van Zyl 2016: 8). Therefore, easing the regulatory constrictions on SMEs must, consequently, be one of the core areas of the South African government. While compliance is important for the business, it is also a costly venture.

2.12.1.4 Red Tape

The term "red tape" refers to "excessive regulation or rigid conformity to formal rules that is considered redundant or bureaucratic and impedes or prevents action or decision-making." Red tape is evident in the Durban municipal sphere of government, particularly with regard to interactions by/with the private sector (Christensen, Hegazy and Van Zyl 2016: 9) .

Additionally, even though many regulations and administrative practices were relevant at some stage many have, nevertheless, become unnecessary and futile in achieving the pertinent objective (Christensen, Hegazy and Van Zyl 2016: 9).

Regulation compliance is therefore the outcome of good governance, significantly ensuring legal and regulatory frameworks effectively and efficiently meet the aims and objectives of the enterprise.

2.12.1.5 Compliance Cost

Compliance cost comprises various direct and indirect costs for the firm when it must comply with administrative practices, credentials, specific licenses, and completing compulsory tax and VAT returns arising from regulations. Costs such as compliance with financial reporting, corporate governance, risk regulations, and so on, are considered opportunity costs as they are time-consuming and can have significant consequences for the business (Christensen, Hegazy and Van Zyl 2016: 8).

The report from the annual review of SMEs in 2016/2017 (Department of small business development 2017: 3) states, according to the findings, these compliance costs are prohibitively high for SMEs, consequently preventing the businesses from growing. Furthermore, some opportunity costs can be passed on to the consumer, who then bears the cost.

2.12.1.6 Public infrastructure access

Business-related policies carry an objective of providing a fair platform that enables SME growth and sustainability, aiding the government to regulate such platforms fairly, with a frequent review of their effectiveness Moise, Khoase and Ndayizigamiye (2019): 111). Furthermore, the OECD (1995: 9) states government policies should make the process of firm start-up simpler and easier. Meyer and Meyer (2017) dispute this, stating government policies are dominating in constraining SMEs in SA. The OECD (1995: 9) shares the sentiments that the record of special policies encouraging the start-up of new firms, has not been particularly encouraging.

On the other side of the spectrum, public infrastructure development is a functional government intervention that stimulates the development of SMEs. Moise, Khoase and Ndayizigamiye (2019: 111) additionally state the availability of public infrastructure creates a favourable environment for SMEs to grow and succeed. Public infrastructure is inclusive of electricity, water, telephones, serviced roads, and postal services, among others. These are vital to SME growth and daily operations; however, the recent interruptions of electricity flow, load shedding, and the government's attempt at rationing electricity have been a hindrance in business operations.

Former president Jacob Zuma stated that the reduction of unemployment, as well as enhancing SME development were his main goals for his term of office Bushe (2019:1). However, during his tenure, corruption scandals were unearthed, connecting the maladministration of state-owned enterprises (SOEs), such as Eskom, PRASA, and SAA, to name a few, along with public money mismanagement Bushe (2019:1). Such SOEs are key to service delivery for SMEs and the citizenry of SA with Durban, KZN included. Unfortunately, the nature of the corruption unearthed has fractured public infrastructure access to this very day. Currently, the presidency, with Cyril Ramaphosa at the helm, promises an economic miracle and provides an environment where SMEs not only survive but thrive, which has already been deliberated (Packirisamy 2018: 1).

Public infrastructure access is significantly impacted by corruption and crime and is, therefore, severely limited, having been identified as a major factor in frustrating operations and constricting the lifeline to SME growth and survival in SA (Madelo 2019: 16). Regulations and compliance are a vital guide to the growth of SMEs, particularly

corporate governance and financial reporting compliance, as they open the gateway to access of finance.

Nevertheless, the costs of complying to such are too great for SMEs to afford during their start-up phase, consequently, becoming a hindrance to SME operations and growth as it morphs into an opportunity cost. The government is thus required to work even harder to regulate red tape and compliance costs, prioritising the reduction of costs vital for SME growth, whether compulsory or not. Further investigation is needed into how the government can intervene in policy development that lessens the burden of compliance costs and policy implementations for SMEs.

2.12.2 Economic

The state of the national economy plays a major role in the success or failure of the enterprise. The National Treasury of SA indicates an improvement in the global economic growth outlook from 2016, however, South African economic prospects remain moderate, with 1.3 percent in 2017 and two percent in 2018 (Department of small business development 2017: 17). Consequently, the dominant factors that contribute to the slow GDP growth are poor service delivery, poor business confidence, and policy instability (Moyo 2019: 35).

The economic factors that can hinder the growth of SMEs, such as inflation, interest rates, and unemployment, to name a few, will be discussed since they can also hinder the enterprise's ability to comply with policies, hence, the hindrance to growth (Bushe 2019: 1). This study seeks to deliberate how these factors challenge compliance with corporate governance and the ability of the enterprise to produce reliable financial reports (Department of small business development 2017: 17).

2.12.2.1 Inflation

Inflation has a devastating impact on the South African economy and by extension, SMEs. The current statistical information, regarding the inflation rate in SA (Figure 2.2), in accordance with (StatsSA 2022: 1) is as follows:



Figure 2.4: Inflation Rate in SA 2022

The consumer price index (CPI) grew by 0.6 percent in February, despite the inflation rate being constant at 5.7 percent, as shown in the graphic (Figure 2.2). The impact of the inflation rate on consumers has adverse consequences that subsequently affect enterprises.

Based on the report by the National Treasury (2017: 18), there was a notable rise of 2.2 percentage points in the headline inflation, leading to a final inflation rate of 6.4 percent over the period of 2015 to 2016. Contrary to the early projections made in 2016, which anticipated that inflation would persist at a level beyond six percent until 2018, there was a notable decline in headline inflation to 4.8 percent by October 2017, as reported by (StatsSA 2017: 1). The decrease in inflation is beneficial for both the overall economy and small and medium-sized companies (SMEs). Nevertheless, the initial predictions regarding elevated inflation levels in 2016 would have undoubtedly impacted the expectations of both consumers and businesses during the course of the year. The aforementioned expectations, irrespective of the final outcome, would have exerted an adverse influence on the business climate for SMEs in the year 2016 (StatsSA 2017: 1).

In general, the prospects for companies in South Africa are very pessimistic in the foreseeable future, which is expected to have a substantial impact on small and

medium enterprises (SMEs). The rise in prices has a negative impact on customers' disposable money, leading to a dual challenge for small and medium-sized enterprise (SME) owners: the need to anticipate higher expenses and a potential decline in revenue. In addition, according to StatsSA (2017: 1), the profit margin ratio, which quantifies the profitability of a firm by assessing the amount of profit generated per unit of turnover, experienced a decrease from 11 cents per Rand in 2005 to a mere five cents per Rand in 2017.

In essence, SMEs must brace themselves with the economic environment becoming more volatile and hostile; since consumers are tightening their belts against spending, turnover will lessen for businesses. This will, in turn, constrict SME growth, as compliance costs for corporate governance and financial reporting sink further into the opportunity cost abyss.

2.12.2.2 Interest

Access to capital via various means becomes easily attainable when the interest rate is low. According to the South African Reserve Bank, the current prime lending rate is 7.75 percent. The table below illustrates the changes in prime interest rates.

Table 2.2: Prime interest rate changes

Current and Historical Prime Rate			
Ticker	Name	Value	Date
PRIME.ECO	Prime Rate	7.75	24-03-22
PRIME.ECO	Prime Rate	7.5	28-01-22
PRIME.ECO	Prime Rate	7.25	18-11-21
PRIME.ECO	Prime Rate	7	18-09-20
PRIME.ECO	Prime Rate	7	24-07-20
PRIME.ECO	Prime Rate	7.25	22-05-20
PRIME.ECO	Prime Rate	7.75	15-04-20
PRIME.ECO	Prime Rate	8.75	20-03-20
PRIME.ECO	Prime Rate	9.75	17-01-20
PRIME.ECO	Prime Rate	10	19-07-19

Source: ABSA (2022:1)

High prime rates restrict the amount of capital and resources that can be raised by SMEs, accordingly restricting the growth of the enterprise.

2.12.2.3 Enterprise density

The number of SMEs in the first quarter of 2008 was 2.18 million. This number rose to 2.25 million in the second quarter of 2015, significantly rising by three percent. Furthermore, 1.5 million of the 2.25 million are informal SMEs, as well as concentrated in the trade, particularly in the wholesale, retail, and accommodation sector (OECD iLibrary 2020: 1).

2.12.2.4 Taxation Processes

There are no appreciable concessions made to SMEs under the existing tax systems; the Value-Added Tax (VAT) systems are one area of concern. According to the Department of Small Business Development (2017: 32), small firms experience significant cash flow constraints due to the requirement of paying Value Added Tax (VAT) upon invoicing rather than upon receipt of payment (Department of small business development 2017: 32). The examination of enhancing government initiatives in South Africa through improved coordination and communication among departments is a topic of significant importance, given the multitude of economic policies and objectives that require oversight by the government. (Department of small business development 2017: 32).

Costs and rates associated with taxation in SA are among the highest globally, significantly shrinking profits for SMEs. Unfortunately, SMEs in SA do not have the capacity and the knowledge to administer tax returns and thus, need to consult experts for a fee to meet these legal requirements, further shrinking their profits (Olla 2016: 13).

Furthermore, the nature of businesses in Durban, which often involve cash transactions, provides opportunities for SME owners to engage in tax non-compliance. As a result, many SME owners in Durban choose to avoid declaring their cash transactions, leading to serious tax non-compliance issues (Radzi 2019).

2.12.2.5 Technology

SMEs in SA and other developing countries experience enormous difficulties regarding the availability and accessibility of appropriate technologies, data collection techniques, and storage, as well as existing processes (Leboea 2017: 54). The author also states the technologies currently utilised by SMEs are not advanced and in the league of larger counterparts, consequently, decimating their production rates.

When SMEs take decisions regarding technology adoption or utilisation, the cost factor remains the deciding factor. SME inability to understand the benefits of new technology adoption, lack of support structure, and the effects of new technologies are factors that contribute to a deficiency of technological awareness (Mabulele 2020: 29). Furthermore, SMEs need to access technology to gain a competitive advantage.

In addition, according to Leboea (2017: 69), the existence and access to technology in small businesses empower entities to seize the opportunity to, for instance, improve their turnover, as well as taking advantage to reduce operating expenses, thus improving productivity, performance, and providing a fertile ground for organisation progression (Mabulele 2020: 29). Consequently, when businesses fail to secure appropriate technology at inception, the start-up phase can adversely affect the development and sustainability, as times change.

2.12.3 Social Factors

Social conditions can reveal the country's various stages of development. The social conditions of a developing country such as SA may create environmental support that can benefit small businesses (Littlewood 2018: 527). The conditions can, however, also create pressures that can constrict SME growth and development. Some factors that can affect the growth of SMEs are deliberated below:

2.12.3.1 Crime

Crime is also a negative factor in a developing country's economy, creating an unstable business environment. This adversely affects the performance and profitability of the business.

Leboea (2017: 70) concurs by stating that high levels of crime affect businesses negatively as it increases the cost of conducting a business, consequentially

decreasing SME turnover as well as investment prospects. Small businesses are most vulnerable to crime, stifling growth and substantiality.

2.12.3.2 Unemployment

The quantity of SMEs does not rise, however, the rate of SME failure has risen to 75 percent, indicating SMEs are not sustainable Lekhanya (2016). Furthermore, SMEs have a large capacity to absorb labour in SA, unfortunately, the high failure rate means the absorption of labour is hindered, consequently contributing to the high unemployment rate (Mncayi and Shuping 2021).

In SA, people are propelled to entrepreneurship; to fight unemployment, they are pushed to survive. Therefore, the limited turnover generated by SMEs is geared to be utilised for survival purposes, further hindering the capacity to comply with regulations that can assist with growth, such as corporate governance and financial reporting (Pyper (2016). It is therefore highly important for SMEs to receive attention and assistance, in terms of their ability to comply.

2.12.3.3 Cultural influence on gender

The roles of men and women in society, in the workforce, as well as in the household, are dictated by social conventions. In most developing countries, there is a strong cultural stance still being adhered to, regarding the roles of women, which comprises early marriage and child-bearing; household welfare responsibility; as well as little to no involvement or active contribution to the economy, either as an employee or employer. Stupnystka, Kock, MacBeath, Lawson and Marsui (2014) also states this negatively impacts the SME contribution to the country's economy, as most society members (women) lack the skills to start, grow and sustain businesses.

Education is one of the critical components to the development of thinking skills. In addition, education, further creates a strong foundation for business owners and enhances preparation, planning, management, and financial management, as well as accounting and governance (Siyaya 2021:25). In developing countries, education inequality levels between women and men poses a critical challenge to women business owners. Women tend to disallow themselves to start a business due to the inaccessibility of or inequal education and skills-training. Siyaya (2021:26) further

elaborates and affirms this notion, which lowers SME growth and sustainability as a result, since the objective for women is more of a survival motivation.

Due to being responsible for the household, women are pushed into entrepreneurship to provide an additional source of income, further corroborating that most women who start SMEs do it because the family needs to survive, not for personal growth. Therefore, access to credit and funding may not play an important role, since these SMEs are informal in nature and capital is mainly provided by the husband or household income (Stupnystka *et al.* 2014). In addition, the household income or savings become the primary risk that may be taken, as there is lack of collateral on the women's part. It then becomes the man's responsibility to decide what risks may be taken, which women may not be skilled at.

2.12.3.4 Effects of COVID-19 on SMEs

SMEs found it extremely difficult to manage and survive the lockdown measures implemented as a result of the COVID-19 pandemic. According to UKwaZulu-Natal (2020: para 4), COVID-19, an epidemic of the acute respiratory tract, has exacerbated the challenges faced by SMEs and made their survival during the lockdown and thereafter, increasingly uncertain.

The Corona Virus has affected SMEs and, by extension, the economy in various negative ways. According to Small Business Research Specialists (SBP 2020: 1), the loss of demand and revenue for goods and services heavily affects the functional abilities of any business, creating liquidity issues. The supply chain is interrupted, and retrenchment or salary cuts implemented, affecting many workers. This is linked to consumers' loss of income, reducing consumer spending and consumption. In this regard, small and medium businesses are affected worse than their larger counterparts, as they are extremely vulnerable to economic shocks (SBP 2020: 1).

2.12.4 Environment

The frequency of natural catastrophes and climate change is among the top 10 most pressing concerns for organisations globally, according to the most current Allianz Risk Barometer (Allianz 2023: 8). In the year 2022, the risks pertaining to global warming, including physical, operational, financial, and reputational hazards, were

assessed and found to be the sixth most significant threat to the continuation of company operations in South Africa (Allianz 2023: 8).

A compelling demonstration of the extensive ramifications of climate change may be shown through the severe inundation caused by heavy precipitation in many regions of KwaZulu-Natal over the previous year. According to the World Economic Forum (2023), the floods resulted in significant damages to a multitude of small businesses, placing them among the ten most expensive extreme events attributed to the climate issue in 2022. Occurrences of this nature has the capacity to cause disruption, hence emphasising the susceptibility of small firms to the ramifications of climate change (Allianz 2023: 8).

SMEs should, therefore, acquire a comprehensive comprehension of the distinct risks that jeopardise the sustainability of their economic activities in the present and future. The subsequent stage involves establishing priorities for the development and implementation of risk mitigation strategies and actions. Considering the impending uncertainties, the significance of this matter will progressively escalate.

2.12.5 Conclusion

The factors mentioned above suggest the ability of SMEs to comply is related to daily decisions SMEs must make in navigating the external factors that impact the performance, profitability, and daily operations of SMEs. Consequently, the government, through SEDA, has a mammoth task in providing more support and mentorship to SMEs. Ayandibu and Houghton (2017: 59) agree, stating the government has organisations in place such as SEDA, which are functioning inefficiently, and therefore, needs to build a stable foundation that will assist SMEs in mentoring, offering tenders, and providing consultation. The power of alleviating some of the economic and compliance pressure imposed on SMEs through policy and red tape review also rests with the government. However, Glancey (1998: 18) warns against dwelling on the external/exogenous challenges only, as this may neglect exploring the endogenous challenges; which is the reason this study will explore the internal challenges SMEs face.

2.13 Endogenous Challenges

2.13.1 Internal corporate governance implementation challenges

The role of SMEs in the economy of any country is crucial. SMEs in SA constitute 90 percent of all businesses. Previously, SMEs yielded 75 percent of new jobs (Watkins and Smit 2012: 224), which has decreased to 28 percent (Businesstech 2018: para 2). Furthermore, the high rate of SME failures belies their positive contribution to the economy of SA. Consequently, various factors contribute to the failure of implementing corporate governance in the business. When there is no board of directors, corporate governance becomes a tall order to implement.

2.13.2 Strategic decision-making

According to the King Code (IoDSA 2016a: 45), SMEs that are owner-managed seemingly have a problem with strategic vision, planning, and development. Strategy is vital for the growth and prosperity of any business, and directly associated with the ability to identify the core driving force of the business.

Strategic decision-making also plays a crucial role in the success and growth of small and medium-sized enterprises. By making informed and thoughtful strategic decisions, SMEs can effectively adapt to market changes, identify new opportunities, and overcome various challenges (IoDSA 2016a: 44).

In addition, the entrepreneurial freedom enjoyed by SMEs allows for nimble decision-making and rapid adaptation to the ever-changing business landscape. However, to fully capitalize on strategic opportunities, SMEs must also recognize the importance of effective governance and a well-structured board (IoDSA 2016a: 45).

The lack of comprehensive information and understanding of the business environment can hinder SMEs in making informed and sound strategic decisions. It is pivotal for SMEs to align their strategies with the dynamic and uncertain business environment to maintain their competitive edge in the market. (Makinde and Agu, 2018). Therefore, it is imperative for SMEs to leverage both strategic entrepreneurship methods and a well-structured board to navigate the complex decision-making process and ensure long term success in today's competitive market. However, SMEs

often face difficulties in understanding their business environment, which can hinder their ability to make comprehensive and effective strategic decisions.

2.13.3 Absence of the Board (Directors and Controllers of the company)

The executors of the strategic vision in the company are the board. It is the board's responsibility to ensure strategic plans are implemented to guarantee sustainability of the entity. Section 66 of the Companies Act 71 of 2008 stipulates “the business affairs are managed under the direction of its board” (SA Dept. of Justice 2009: 118). The board is also a key structure that leads to the implementation of corporate governance.

As stated in Principle 7 of King 4: “The board should comprise the appropriate balance of knowledge, skills, experience, diversity, and independence for it to discharge its governance role and responsibilities objectively and effectively” (Light 2021: 2).

In addition, as an SME grows, it encounters fewer professional network challenges. Furthermore, when the business desires to strengthen its governance capabilities, it finds suitable advisors or non-executive directors (IoDSA 2016a: 45). Professional networks and networking then become critical, as they enable SMEs to find the right people with relevant skills and expertise to advise and serve in these positions. These non-executive directors and advisors significantly assist in the procedural establishment of the board of directors and board committees (Ayed and Rosen 2020).

As a consequence of the absence of the board of directors, the entity is robbed of an array of skills, experience, diverse backgrounds and precious knowledge that would open the entity up to growth and sustainability, leading to good governance (Skae, Pearse and Shonhiwa 2021)

Furthermore, the burden of compliance to various issues becomes significantly lighter, as there is a board of directors that also ensure the business complies with financial reports, as they must account for the usage of business resources.

2.13.4 Lack of Funding

According to IFAC (2017: 4), when an SME lacks financial resources, sustainability is non-existent, moreover, because SMEs cannot guarantee sustainability, acquiring capital either by debt or equity becomes a mammoth task.

SME South Africa (2022) details the following documents required by the government when applying for funding:

- Basic business plan;
- Feasibility plan;
- Strategic plan;
- Trading licence/ permit to trade or business licence (if applicable).

The following financial documents are required in order to improve the probability to secure government funding:

- Cash flow projections;
- Outstanding debtors (for instance, customers who owe you money);
- Up-to-date management accounts (for example, income statement, balance sheet and cash flow statement);
- Latest annual financial statements;
- Latest VAT statement;
- Last three/six months' bank statements;
- Tax clearance certificate.

(SME South Africa 2022)

Other lenders, such as banks also require collateral, in addition to this list of documents.

Although SA has sufficient funding instruments there is, however, an insufficiency in the advancement of lending tools. Foster and Khanyile (2022: 2) states that funding variance in SA is approximated at between 86 and 346 billion Rands. SMEs in the country are unable to meet the requirements needed by finders, as they cannot prove their creditworthiness, financial solvency or present collateral, even though funding is accessible (Foster 2022: 2). In other words, lack of assets and financial muscle means some opportunistic risks cannot be taken.

The incapability of SMEs to provide collateral, present audited financial reports, as well as difficulties regarding disproportionate information, contribute to SMEs' inability to access external funding (Foster and Khanyile 2022: 2). SMEs that demonstrate

profitability and growth stand a chance of accessing external funding (Foster and Khanyile 2022: 2). Therefore, audited financial reporting provides a more detailed view of the business's profitability and growth to external funding providers. As a result, without audited financial reports, businesses cannot formulate the required documents needed to access funding from any providers or lenders.

2.13.5 Lack of Risk Management (Risk)

The ability to manage risk is another downfall of SMEs. The owner must be skilled, with the ability to analyse risk and make a distinction between calculated risks the owner can take advantage of, and risks that lead to the demise of the business (Watkins and Smit 2012: 6325).

Compilation of financial reporting and by extension, integrated reporting, involves the following aspects:

Satisfying customer demand through adequate productivity is the primary goal of SMEs, with the owner-manager allocating whatever resources necessary to achieve that goal. Du Bourg (2018: 77) explains the cost of compiling reports is, however, not a priority to SME owner-managers. Nevertheless, when there are no reports compiled, the company is unable to document its sustainability, risk management, strategic, and financial reports. Moreover, SMEs' chances of receiving funding are embedded in these reports.

The identification and mitigation of risks can provide valuable assistance to managers of SMEs in identifying the crucial risks that may pose a threat to the growth or even survival of the organisation (Kaya and Uzay 2017: 48). By promptly addressing these risks, SME managers can effectively handle them and prevent potentially dire consequences. These negative outcomes can range from financial distress, such as bankruptcy, insolvency, and loss of customer base, to liquidity problems (Kaya and Uzay 2017: 48). However, the failure to accurately assess risks can result in severe repercussions. Inability to allocate sufficient financial resources and a lack of risk management knowledge and skills among SMEs further exacerbate their inability to implement risk management practices (Kaya and Uzay 2017: 48). Additionally, the successful implementation of risk management practices requires the allocation of

financial resources to support the necessary processes and personnel, which poses a significant challenge for SMEs.

2.13.6 Lack of financial reporting in SMEs

The objective of financial reporting in SMEs is suggested by Ystrom (2019: 39), to use the decision-useful approach, indicating such information is for the benefit of users, such as financial loan providers, suppliers, tax authorities, and employees, as well as owner-managers. In addition, the usefulness of the financial reports to managers and external users tends to be related to the sophistication of accounting systems; with the system becoming more sophisticated as the business increases in size (Ystrom 2019: 39).

In other words, the bigger the company, the more sophisticated the accounting systems become; the more sophisticated, the more formalised and the more formalised, the more regulated, meaning compliance becomes a little easier (Ntie 2020). Therefore, the Stewardship approach becomes effective as the business grows in size. However, SMEs lack the ability and financial muscle to establish a board of directors, consequently, having little management to account for business resources.

2.14 Chapter Conclusion

SMEs' objective for being in business is to survive, thus, decisions taken are to ensure survival, with strategic decision-making done for growth. Corporate governance and financial reporting are concepts that unlock growth as they attract external funding; a reason why larger companies keep growing. In this regard, survival becomes synonymous with stagnancy. Nonetheless, corporate governance and financial reporting implementation are expensive; a cost SMEs cannot afford. SMEs can, however, learn and desire growth, therefore, training and skills development in owners are needed.

In addition, keeping accurate accounting records for a SME can also be considered a risk minimisation measure. The following are some ways accounting information may assist small enterprises perform better:

- As a means of regulation. The control aspect of bookkeeping is likely what helps to prevent the small-scale dishonesty and ineptitude frequently demonstrated by

staff of small businesses. Typically, businesses have a wide variety of assets, including cash, inventory, furniture, and buildings, as well as machinery, and more. To reduce the potential for theft and misappropriation and assure economic expenses, it is essential a comprehensive accounting system be put in place. Employees will be more cautious while handling all company property when aware every item has been accounted for.

- Supporting tax-related issues, such as sales tax, municipal tax, custom duty, and excise duty, as well as other types of taxes levied by the government. To effectively calculate and pay the proper amount of tax due, an entrepreneur must be aware of his actual sales figures, which highlights the importance of accounting that is accurate. Inadequate accounting can easily result in excessive taxation, which can be very unpleasant.
- Assistance in profit or loss calculations.

The board of directors, as custodians of corporate governance, play an important role in fostering growth in the business, thus, a diverse board of directors with various skills, knowledge, and experience is needed. Corporate governance ensures the board of directors runs the business for the benefit of growth, as well as for the interest of shareholders. Furthermore, the board of directors can open various channels of professional network exposure that are very beneficial for the business.

The board of directors inherits the responsibility of utilising business resources for the growth and day-to-day running of the business, ensuring systems and policies are in place to guide and facilitate that growth. At the financial year-end, the board of directors must present transparently prepared financial reporting is, evoking a dialogue between owners and managers regarding the report, where managers are expected to account for the utilisation of the company resources and their investments. Furthermore, the financial reports must be prepared with an objective in mind. A reliable financial report is an indication of good governance to all relevant users, because this can increase SME accessibility to funds, unlocking growth and sustainability.

The government also plays a crucial role in, not only the growth of the SME, but also the evaluation of red tape and compliance costs, along with public infrastructure

provision and reparation; Consider for instance, the difficulty businesses have, operating without a consistent flow of electricity.

The next chapter outlines and details the research methodology employed in conducting this study.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The chapter outlines the technique used to lead this study and to obtain this data. The study objectives that must be satisfied and realised when collecting data are as follows: -

1. Determining SME compliance levels to corporate governance and financial reporting.
2. To determine the challenges affecting compliance of SMEs to corporate governance and financial reporting.
3. To determine the level of severity the challenges have on the business.

The result of this investigation allowed the researcher to make recommendations accordingly that can aid businesses or assist SMEs.

This chapter gives an overview of the realistic techniques of collecting data for this study. This chapter covers the research design and strategies used for the accumulation and analysis of data. The researcher chose to utilise questionnaires as a form of collecting data for this study. The choice of the technique covered will be explored in the research design.

3.2 Research Design

According to USC Libraries (2021: 2), research design refers to the complete strategy selected to incorporate the diverse study mechanisms rationally and rationally , thus, ensuring the research problem is effectively addressed; it constitutes the design for the collection, depth, and analysis of data.

There are three types of research design the researcher can choose to utilise to effectively collect and analyse the data. These are qualitative, quantitative, and mixed methods.

A qualitative research method is explained by Mohajan (2018: 23), as a form of social action that focuses on people's interpretations of their experiences, to understand the

social reality of individuals. The qualitative research method works with non-numerical and non-statistical data, acquired through interpretation of words. Open-ended questions are the appropriate manner to collect data, through interviews, allowing the subject to express their interpretation, thus, focusing on the reasoning (the why and the how).

Quantitative research is the study of occurrences through the collection of numerical data and the execution of statistical, mathematical, or computational techniques. Sources of quantitative research include inference statistics, hypothesis testing, mathematical explanations, and randomisation of experimental and quasi-experimental designs, as well as blinding, structured protocols, and questionnaires with limited diversity. It is a “positive-minded paradigm that advocates an approach embedded in a statistical breakdown that includes the strategy of predetermined answers” (Adedoyin 2020: 2). Objectives of quantitative research include measurable variables and hypotheses, where variables can be concepts with variations of values. Hypotheses are untested assumptions or propositions of relationships between variables. Adedoyin (2020: 2) also states questionnaires, case studies, and experimental research are, therefore, the most common research strategies under quantitative research.

The suitable research design for this study is therefore a quantitative research design.

3.3 Target Population

Mabulele (2020: 50) defines the target population of the study as a comprehensive set of features characteristic of persons or substances with some similar attributes, where the selection criteria of the researcher or the entire group of people or objects are recognised.

The extent of this research was limited to SME owners, owner-managers, shareholders, and relevant officials who held managerial positions at the time of the study in the KZN province of SA, specifically the Durban area, known as the eThekweni region.

The number of SMMs in the eThekweni district is unknown and the spread of COVID 19 has affected the operations of SMEs negatively, making it more difficult to obtain updated numbers of SMMs in the district Mahohoma (2017: 38). The only other data

obtainable from the Durban Chamber of Commerce and Industry for 2015/2016, where 700 SMMEs were stated as being registered members, with these statistics also used by Mahohoma (2017: 38) and taken into consideration as the population for this study.

3.4 Sampling Method

Choosing certain individuals or a subset of the population to draw conclusions about the characteristics of the full population statistically is known as sampling. Researchers commonly employ a range of sampling strategies to gather meaningful insights without having to study the full population.

Researchers have the option to employ two primary sampling strategies in their study, namely probability sampling and non-probability sampling. According to Taherdoost (2020: 20), a probability sample is characterised by the property that each item within the population has an equal likelihood of being chosen for inclusion in the research sample. One method for implementing random sampling involves the initial construction of a sampling frame by the researcher, followed by the use of a computer programme that generates random numbers to select a sample from the aforementioned sampling frame (Zikmund, 2002). According to Brown (1947), probability or random sampling is characterised by a higher degree of freedom from bias compared to other sampling methods. However, it is important to note that this method may incur higher costs in terms of time and energy, relative to other sampling techniques, while maintaining a consistent level of sampling error.

Non-Probability sampling is usually associated with qualitative studies. Trochim (2020: 1) defined it as "a phenomenon in which each case being selected from the target population is not known and it makes it impossible to conduct statistical inferences or answer research questions and objectives". Trochim (2020: 1) further explains non-probability sampling methods as follows:

- Convenience sampling is done based on sampling those available at their convenience to the researcher.
- Voluntary response sampling is the process based on ease of access, very similar to convenience sampling.

- Purposive sampling can be defined as a process in which the researcher selects the sample based on their knowledge of the sample that will most closely align with the study purpose.

- Snowball sampling is the technique used when it is difficult to access the population. More people are reached through existing people, thereby creating a snowball effect.

Probability sampling is most associated with quantitative studies whereby, "the researcher needs to make statistical inferences from the sample about a population to answer research questions and objectives" (Statistics Solutions 2020: 1).

Probability sampling methods can be either:

- Simple random sampling is a sampling technique in which each member of a population has an equal and independent probability of being picked.
- Systematic sampling is a method in which people from a community are assigned numbers and then selected at regular intervals.
- Stratified sampling is a method that involves the division of a population into distinct sub-groups.
- Cluster sampling involves the partitioning of a population into smaller, distinct sub-groups, with the requirement that each sub-group exhibits characteristics that are representative of the total sample. (Statistics Solutions 2020: 1)

This study used the non-probability sampling method, as the pandemic has affected small businesses negatively, with some having had to close, making it difficult to determine which businesses remain operational. Therefore, the researcher utilised a convenience data collection method, which allowed data to be collected according to participant availability (Etikan *et al.*2016: 2).

3.5 Sampling Size

According to Zamboni (2018: 2), sample size refers to the number of independent observations in a statistical context, which might include scientific experiments or surveys. The author further asserts that the determination of a study's sample size necessitates consideration of several factors, such as the size of the population, the reliability of the collected data, and the cost associated with data collecting, in order to ensure sufficient statistical information. The decision to choose the sample method and allocate time for sampling the region in this particular case was based on practical

reasoning. The amount of the sample to be collected and analysed was limited to the timeframe allocated for the anticipated date of return of the completed questionnaires. According to a research conducted by Maree and Pieterse (2007: 217), it is cautioned against analysing data before establishing the adequacy of the sample size and its representativeness across all relevant categories.

The researcher acknowledges that time, feasibility, and budget must be considered, as these factors can necessitate reducing the initial research study scope, such as conducting a regional rather than national report. According to Delice (2010: 8), sampling assumptions ensure objective results, and population size is of little importance provided the sample size is greater than 30 ($n > 30$). The decision to take 248 samples for this study was made based on similar rationale, namely that it was believed to adequately represent a larger population. In accordance with quantitative sampling calculations specifying a five percent margin of error, 248 SME owners are considered an appropriate sample size for this study. An online statistical tool was utilised to calculate the sample size (Creative Research Systems 1982).

3.6 Measuring Instruments

A questionnaire was used as data collection instrument in this study. As a questionnaire can be sent to a great number of people simultaneously, Bacon-Shone (2015: 63) noted it is one of the most efficient ways of large-scale data collection.

Questionnaires are found to be most widely used in educational and evaluation research as data collection methods (Bacon-Shone 2015: 3). The Oxford Dictionary explains a questionnaire as a list of written questions which are answered by a few people. Information could be collected from the answers Oxford Dictionary (2023).

The survey questionnaire comprised mainly of closed-ended questions, with these directly linked to the research objectives. The survey used a 5-point Likert Scale, with responses rated from Strongly Agree; Agree; Neutral; and Disagree, to Strongly Disagree. Including an open-ended question offered participants the opportunity to expand on their views on the phenomena under study (Appendix A).

The questionnaire was developed drawing on the Companies Act (The Presidency 2009) and the King Code (IoDSA 2016) for a series of compliance regulations. These

concepts were subjected to factor analysis (exploratory and confirmatory) to validate the questionnaire, using both discriminant and convergent validity in assessment.

3.7 Data Collection

Closed-ended questionnaires should ideally be hand-delivered by the researcher to the companies. Hard copies posed a danger in the times of the COVID-19 pandemic; therefore, the questionnaire was emailed to the participants via a link. Nonetheless, since the pandemic restrictions were lifted, this allowed the researcher to visit the business premises, however, the questionnaire were still administered electronically at the business premises by the researcher. Furthermore, the distribution of an electronic link to access the questionnaire remained an option for those premises that still enforce COVID restrictions in their businesses. The researcher explained and gave guidance regarding questionnaire completion, when owners and/or managers require clarification. Five working days were afforded to participants to complete the survey.

3.8 Data Analysis

Data analysis is a method used to identify trends and patterns within analysed data, as described by Zamboni (2018:5). It involves taking raw data and converting it into useful insights that can be leveraged to achieve objectives and gain understandings. Through descriptive analytics, researchers are better positioned to characterise specific distribution attributes. For instance, it allows for examination of "the degree of variation between scores or the average score for each variable" (UWE Bristol 2020:2).

The collected data pertaining to the research questions was analysed using statistical tools to closely examine and generate conclusions regarding the data. Statistical Package for the Social Sciences (SPSS) version 28.0. software was utilised to conduct the analysis. SPSS version 28.0. was used to analyse the data alongside appropriate statistical tests. Fisher-Freeman-Halton Exact Tests crosstabulation analysis was performed. This Spearman's correlation analysis used is aimed to determining the relationship between compliance to corporate governance and financial reporting and their effect to the sustainability of SMEs located in Durban,

South Africa. The aforementioned statistical tests relate to inferential statistical analysis methodologies.

3.9 Pilot Testing

The definition of a pilot study, as stated by Bacon-Shone (2015: 55), is, “a study that is conducted on a small scale, aimed at collecting data from participants that have similarities with those participants that will be used to conduct the study”. A pilot study using a minimum of ten people was conducted where pilot participants have similarities with those requested to take part in the main study. On receipt of the feedback, it was analysed to ensure all questions were clearly understood, without ambiguity in any statements/ questions.

3.10 Validity and Reliability

3.10.1. Validity

Study validity and reliability are important factors as these reiterate the study value, with (Heale and Twycross 2015: 66) considering these two concepts central to the study quality. The authors explain validity as “the extent to which a concept is accurately measured in a quantitative study” (Heale and Twycross 2015: 66). This pertains to the suitability of the measurements employed, the precision of the analysis of the outcomes, and the potential for generalising the findings. The study's validity encompasses both internal and external validity.

According to Cresswell and Cresswell (2018: 107), There are three conventional types of validity in quantitative research:

- Content Validity – Do the elements measure what they were expected to measure?
- Concurrent Validity – Do the findings correlate with other findings?
- Construct Validity – Do the elements measure hypothetical theories?

For this study, construct validity is used. Additionally, factor analysis is considered one of the strongest approaches to establishing and is the most commonly used method for establishing construct validity measured by an instrument and was used as it is frequently used to measure Likert scale elements. The structural equation model (SEM) is also used in this study as a further measure to construct validity.

3.10.2. Reliability

Furthermore, as reliability was not only concerned with the replicability and consistency of the research design but also with the accuracy of an instrument, the survey in this study was assessed for reliability using Cronbach's alpha. Bacon-Shone (2015: 55) states statistical procedures such as Cronbach's alpha coefficient can be used to measure internal consistency of, for instance, individual questions in a questionnaire. According to Janadari, Subramaniam, Ramalu and Wei (2016), using a set of equations to represent the relationship between the constructs presented in a theoretical framework, structural equation model (SEM) analyses the nature of interrelationships. A measurement's associated measurement error can be evaluated and addressed by SEM. Janadari *et al.* (2016) further explains that the analysis integrates measurement error, correlated measurement errors and feedback directly. Ultimately, SEM is able to model multivariate correlations and estimate both direct and indirect effects. It estimates moderating effects in the event of compounding measurement error. Thus, the researcher is able to analyse the data more thoroughly and draw more reliable findings.

3.11 Inclusion/Exclusion criteria

The inclusion criteria meant only SME owners or management staff, based in the eThekweni municipal area were considered for participation in this study as they were able to contribute meaningfully, based on their knowledge and experience in the SME sector.

3.12 Ethical considerations

Ethics or moral integrity denotes "a system of agreed-upon standards or a code of conduct that establishes expectations for attitudes and behaviour. It demonstrates a person's honesty, while also ensuring confidence among the various stakeholders in research" (Parveen and Showkat 2017: 5). In undertaking this research study, due considerations were afforded to many ethical issues and barriers, which were properly deliberated to avoid wrongful conduct. This included the following aspects:

3.12.1 Informed consent

The concept of informed consent entailed the researcher's responsibility to furnish all chosen participants with the essential details pertaining to their involvement in the study (Research Ethics Board 2017: 4). Participants are required to fully understand the potential consequences associated with their involvement, enabling them to make a well-informed choice without any limitations about their participation in the study. Consequently, participants were often furnished with a letter of Information and Consent (Annexure 5) to assure their understanding of the specific information pertaining to the performed research. The survey used in this research comprised an electronic hyperlink, necessitating participants to provide approval prior to accessing the hyperlink enabling them to respond to the inquiries. In the event that a participant declines to follow the provided link, the questionnaire moved directly to the submission stage.

3.12.2 Confidentiality

Participants were notified in their letter of consent (Annexure 5) that participation in this study was entirely optional, and their privacy was respected by keeping personal information private. Subsequent to the completion of the study, the data was kept for five years prior to being destroyed.

3.12.3 Anonymity

According to the Research Ethics Board (2017: 3), anonymity is defined as the protection of the identity of the participant by the researcher. For this study, the researcher ensured the identities of participants involved in the project are protected. There was no information or instances where the participant's identity was indicated on the questionnaire, with alphanumeric coding used to ensure anonymity.

3.13 Conclusion

Overall, the research methodology used in the study, which is discussed in this chapter is a quantitative one. The non-purposive convenient sampling technique was used to select the respondents who participated in the study. From a population of 700 SMEs, 248 participants formed a sample and were selected for the study.

The instrument used to collect data from the participants is a questionnaire, which was administered electronically. Participants' identity remained confidential. The data collected via these questionnaires was analysed by using SPSS, a software that analyses quantitative data.

The data collected from the participants has been analysed. The results and findings as well as the various techniques used to analyse and present the data is discussed in the next chapter.

CHAPTER 4

DATA ANALYSIS, INTERPRETATION AND DISCUSSION

4.1 Introduction

The preceding chapter provided a discussion regarding the research methodology adopted in this study and the data collection tools used to gather the data required from the SMEs in Durban.

The data collection techniques discussed in chapter 3 are used to collect the data, and this chapter offers the analysis and interpretation of that data. Distributed to SMEs in Durban, the questionnaire served as the main tool for data collection. With the help of SPSS, version 28.0, the replies' data were analysed. Descriptive statistics for the quantitative data gathered is shown in the results as graphs, cross tabulations, and other figures. Correlations and chi-square test results are examples of inferential techniques, and their p-values are used to analyse them (IBM 2021: 1).

The conventional method of reporting a result necessitates a statistical significance statement. Inferred from a test statistic is a p-value. "p0.05" denotes a significant result (IBM 2021: 1). The literature review and research goals had a significant impact on and served as a guide for the data reported in this chapter.

Participants' information was gathered and provided on compliance levels or current company procedures, which is the primary study aim. This part covers the sectional observations and summary as well as the patterns and assumptions that may be inferred from the results.

4.2 Geographical location of the study

Durban, as the third largest city and commercial hub of South Africa, has emerged as a key player in the province of KwaZulu-Natal.

It has surpassed other cities in the region when it comes to industrial progression and economic development. With its innovative and progressive efforts towards sustainability, Durban has positioned itself as a leader in terms of industrial and SME progression compared to the rest of KZN. Durban's status as the third largest city and commercial hub of South Africa has allowed it to outpace other cities in the province of KwaZulu-Natal in terms of industrial and SME progression.

10111 Police and flying squad
 031 301 0000 Fire and ambulance
 10177 Medical emergencies
 0629717 Police Medical Emergency
 031 322 4154 Durban Tourism Information Office (www.durban.co.za)
 031 306 7500 Masibane Tourism Information Office (www.masibane.co.za)
 031 481 1999 Eswatini NZMFA
 031 481 4036 South African Tourism Information SAT (call centre open 24/7)
 031 322 4179 US National Parks bookings

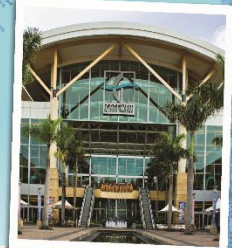
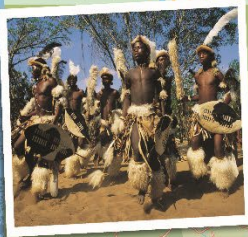
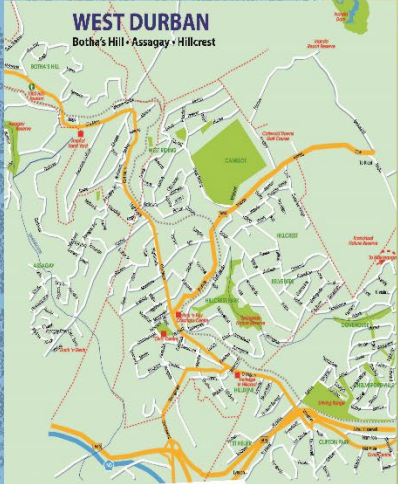
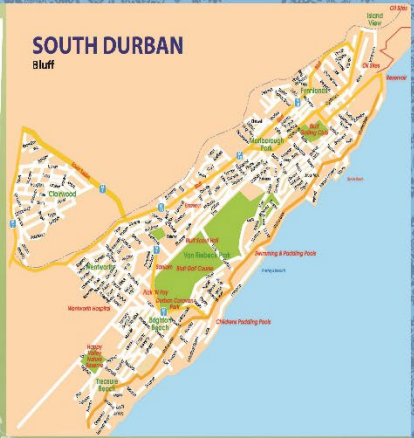
USEFUL NUMBERS

ETHEKWINI AREA



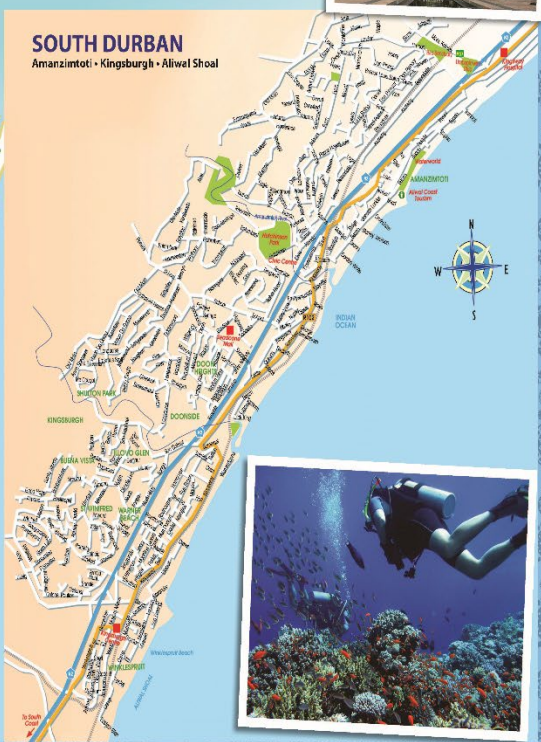
SOUTH DURBAN

Bluff



SOUTH DURBAN

Amanzimoti • Kingsburgh • Aliwal Shoal



NORTH DURBAN

Umhlanga & Surrounds



SAFETY TIPS

PERSONAL SAFETY IS YOUR RESPONSIBILITY. USE COMMON SENSE AND FOLLOW THESE SIMPLE RULES:

IN GENERAL:

- Don't carry a camera openly in the city.
- Avoid wearing jewellery, expensive watches or designer shades.
- If you're accosted, remain calm and be co-operative.
- Be extra careful at ATMs.

WHEN ON FOOT:

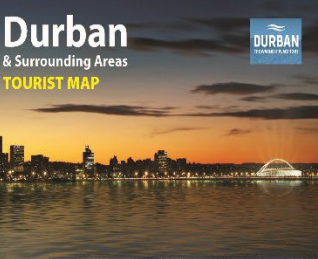
- Grasp bags firmly under your arm.
- Don't carry excessive sums of money on you.
- Don't leave valuables exposed (on a seat or the ground) while having a meal or drink.
- Don't let strangers get too close to you - especially people in groups.

ON THE ROAD:

- Lock all your car doors.
- Look out for pedestrians and animals on the road.
- Never leave anything worth stealing in view when your car is unattended.

ON THE BEACH:

- Only swim at designated swimming beaches, with life guards on duty - do not swim at night.
- Do not swim after drinking alcohol.
- Take only the bare essentials.
- Don't leave valuables, especially cameras, unattended.
- Safeguard car keys by tying them to your swimming gear, or putting them in a waterproof wallet or splash bag and taking them into the water with you.



4.3 The Sample

The sample consists of 248 SME owner-managers in the Durban area to whom questionnaires were distributed. The response rate obtained was 100 percent, indicating an excellent representation of the population and thus, a definitive generalisation can be formulated Di Leo and Sardanelli (2020).

4.3.1 Research instruments

The study instrument comprised 60 items and measured participants on a nominal or average level. The questionnaire was separated into four sections that assessed different topics, as listed below:

- A. Personal information
- B. Business-related details
- C. Corporate Governance Practices and Compliances and Financial Reporting
- D. Factors that influence corporate governance and financial reporting

4.4 Reliability Statistics

According to Taherdoost (2016: 33), reliability and validity are the primary components of accuracy that have significant importance in research. Reliability is assessed by doing several measurements on the same individuals. In the context of a newly developed construct, a reliability coefficient of 0.60 or more is considered to be within an acceptable range. The following table presents the Cronbach's alpha coefficient scores for all items of the questionnaire.

Table 4.1: Cronbach's Alpha score

Section	Number of Items	Cronbach's Alpha
Financial reporting and corporate governance practices/ compliance	10	0.946
Factors that influence financial reporting and corporate governance	10	0.872
Overall	20	0.696

According to Pallant (2010), dependability ratings for all sections are higher than the suggested Cronbach's alpha value. This demonstrates a level of acceptable, dependable grading for these study areas.

4.5 Factor Analysis

The main goal of the statistical method called factor analysis is to reduce the amount of data. Factor analysis is frequently used to represent a large number of questions with a few fictitious factors when conducting survey research. Three different questions about environmental policy that consider local, state, and federal concerns may be asked of respondents in a nationwide survey on political attitudes, for example. To evaluate attitudes toward environmental policy, each question would be insufficient on its own; however, when used in tandem, they might produce more reliable results. Utilizing factor analysis, which may be combined to create a new variable called a factor score variable that includes a score for each respondent on the factor, helps determine whether the three measures actually measure the same thing.

Different contexts can make use of factor approaches. Although it is not necessary to believe that the factors are real in order to conduct a factor analysis, the factors are frequently identified in practice, given names, and used as real objects.

4.6 KMO and Bartlett's Test

A concise table presenting the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test results is shown prior to the matrix table(s). The appropriateness of the data for structure detection may be assessed using two tests, namely the KMO test and Bartlett's test. The results of both tests are presented in Table 4.2. The KMO Measure of Sampling Adequacy is a statistical metric that quantifies the extent to which the observed variance in variables may be attributed to latent factors (IBM, 2021: 1). Data with high values (around 1.0) often indicates the potential usefulness of doing a factor analysis on the data. The relevance of factor analysis results is often diminished when the coefficient value is below 0.50.

The Bartlett's test of sphericity is employed to assess the hypothesis that the correlation matrix represents an identity matrix. This implies that the variables under consideration are independent and hence not appropriate for detecting underlying

structure. Significance levels below 0.05 suggest that conducting a factor analysis with the available data may be beneficial. Di Leo and Sardanelli (2020).

Factor analysis is exclusively conducted on Likert scale items. Certain components can be subdivided into smaller, more intricate components. The explanation for this may be found in the rotated component matrix, namely in Table 4.2.

Table 4.2: Rotated component matrix

Section	Kaiser-Meyer-Olkin Measure of Sampling Adequacy	Bartlett's Test of Sphericity		
		Approx. Chi-Square	df	Sig.
Financial reporting and corporate governance practices/ compliance	0.907	2332.762	45	< 0.001
Factors that influence financial reporting and corporate governance	0.900	1101.748	45	< 0.001

All conditions are satisfied for factor analysis. That is, the KMO Measure of Sampling Adequacy value should be greater than 0.500 and the Bartlett's Test of Sphericity sig. value should be less than 0.05 Analysis Inn (2020).

4.7 Rotated Component Matrix

Financial reporting and corporate governance practices/ compliance	Component
	1
Management and owner(s) are knowledgeable and understand are knowledgeable about corporate governance.	0.845
In accordance with Section 66 of Companies Act 71 of 2008, the affairs of the business are managed under the direction of the Board of Directors. Therefore, the business has a board of directors in place to run the business.	0.766
At least half of the members serving on the board of directors have diverse background, experience and skills and are not employed by the business, meaning they are non-executive members.	0.807
The business management/ board of directors have collectively formulated policies and strategies in place that assist in working towards the vision and growth of the business.	0.740
The business is aware the financial year end of the business as well as of IFRS for SMEs regulations financial reporting, which the business complies with, when compiling the financial reports.	0.891
To ensure transparency and accountability, the financial reports of the business are audited.	0.808
The financial reports of the company are kept safe, using secure, access-restricted systems. There are technologically efficient internal control systems in place to ensure the security and accuracy and transparency of the financial reports.	0.791
The financial reports are compiled to reflect the financial performance, position and sustainability of the business (going concern).	0.910

The Annual Financial Statements of the business comprise of the following, in compliance with IAS1: Income Statement, Balance Sheet Statement, Cash Flow Statement, Statement of Changes in Equity, Notes to the financial statements	0.900
The business has accessed external capital with the assistance financial reports compiled in the business.	0.828

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

Factors that influence financial reporting and corporate governance	Component
	1
Excessive government regulations to comply to for SMEs which pose a challenge to financial performance and growth of the business.	0.611
IFRS for SMEs is difficult to understand and poses a challenge in the implementation process.	0.768
Lack of risk management skills pose a challenge to the growth and sustainability of the business.	0.808
Lack of bookkeeping skills pose a challenge in compilation and understanding of financial reports.	0.772
It is difficult for SMEs to establish professional network, exposing the business to professionals that can serve on the board as non-executive directors.	0.722
The following costs associated with compliance are too excessive for the business and pose a challenge in the growth of the business: Once-off costs such as company registration, Tax compliance costs (completing tax and VAT returns and incurred penalties)	0.617
Lack of efficient and availability public infrastructure such as electricity; water and has a negative impact in the running of the business.	0.420
As the owner, I am aware of the role of the board of directors in a business but I am unable to give responsibility and trust of managing the business affairs to someone else.	0.556
Lack of financial resource challenges the growth of the business.	0.820
Lack of collective strategic decision-making and management skills to promote growth and sustainability of the business	0.818

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

Data reduction is the primary objective of the statistical method known as factor analysis. When a research wants to represent a number of questions with a small number of hypothetical factors, they often use factor analysis in survey research.

With reference to the above table: Varimax with Kaiser Normalisation was the rotation method, and principal component analysis was the rotation method, and principal was the extraction method. By using an orthogonal rotation technique, the number of variables with high loadings on each factor is reduced. It makes the factors' interpretation easier to understand.

The factor loading and analysis process uncovers the intercorrelations present among the variables. Questions that exhibit consistent loading suggest that they are being assessed based on a shared underlying component. An efficient metric involves

evaluating the content of items that load at or above a threshold of 0.5, and selecting the greatest loading value when items are cross-loaded over this threshold.

The statements comprising each part were successfully loaded onto a single component. This suggests that the statements comprising these sections effectively assessed the intended constructs.

4.8 Section A

Biographical Data

This section summarises the biographical characteristics of the respondents. Information such as, gender, age group, as well as the position held by the respondents in the respective businesses were requested. No personal and identity-revealing information was required.

Table 4.3. Age of the participants

Age group (years)		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18 - 20	12	4,8	4,8	4,8
	21 - 30	65	26,2	26,2	31,0
	31 - 40	101	40,7	40,7	71,8
	41 - 50	50	20,2	20,2	91,9
	> 50	20	8,1	8,1	100,0
	Total	248	100,0	100,0	

According to the findings, the highest number of participants that belong to the age bracket of 31-40 years with 40,7%. Age bracket of 21-30 years with 26.2% are second. Next are those belonging to the age bracket of 41-50 years with 20.2%. The lowest participant number is 4,8%, which is the age bracket of 18-20 years.

Figure 4.1: Position held in the organisations

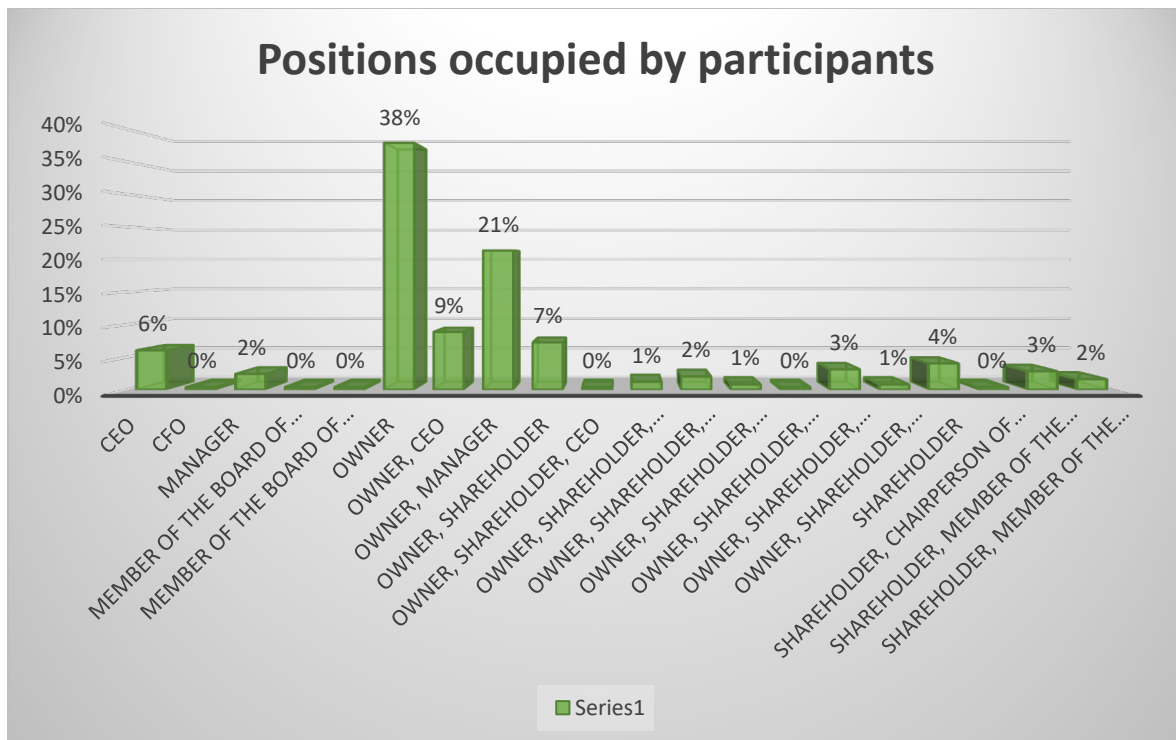


Figure 4.1. indicate 38 percent participants are owners of the business, with 21 percent being owner-managers of the business. Less than three percent participants are shareholders, CEOs or members of the board. These results show the businesses are not large enough to employ a CEO. Furthermore, the businesses do not have structures for a board of directors in place, because they are not large enough.

The ownership structure of a small and medium-sized enterprise (SME) can have significant implications for its sustainability and growth. When more SMEs have owners than shareholders, it typically means that the business is privately owned and not publicly traded. For instance, in owner-managed firms, where ownership and control lie with the same person, there is often a closer alignment between the objectives of management and ownership (Parker 2017: 420). In essence, single-ownership structure does have its advantages. Singular decision-making process leads to quicker implementation of decisions and objectives as the same owners also actively manage their businesses, hence the high number of owners that participated in the study.

However, this ownership structure can also have its limitations. Owner-dominated SME lack specialised expertise in areas like governance, compliance and access to public markets, which are more common in shareholder-dominated public companies Patmore *et al.* (2020): 11).

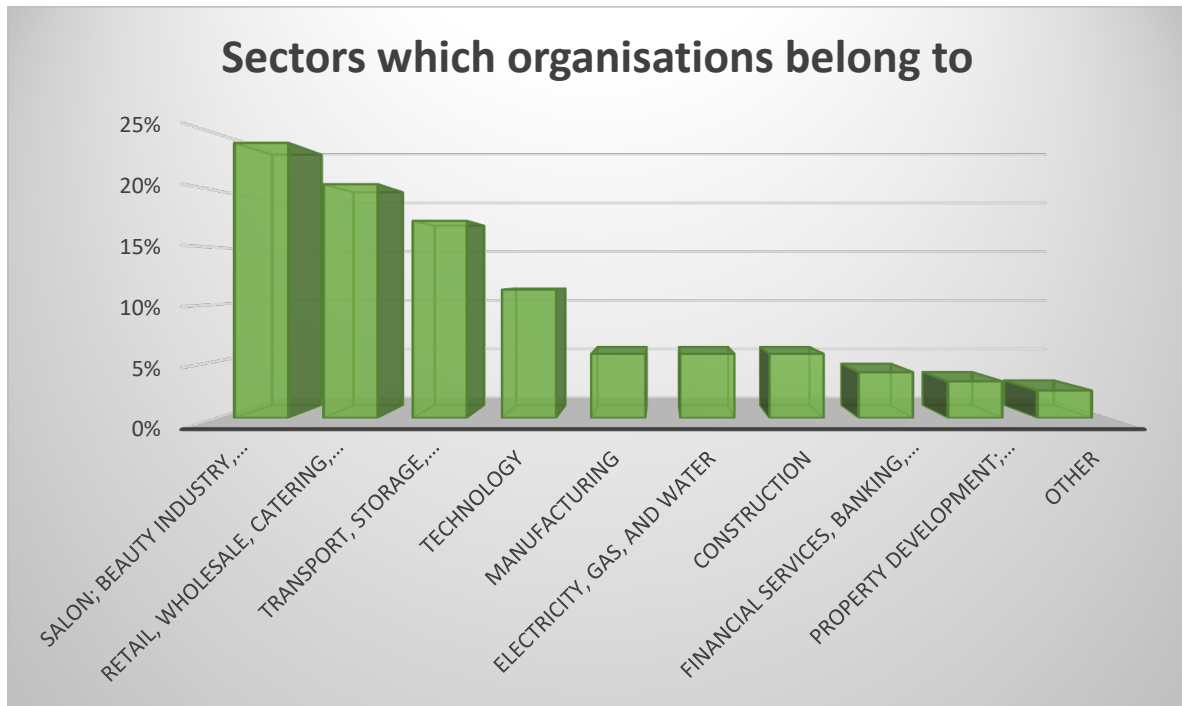
SMEs with owner-dominated ownership structures may face a challenge of raising capital or accessing external funding, as they cannot issue shares easily on the public stock markets. However, owners may invest their own funds. Attaining financing from banks, venture capitalists, or private equity firms essentially requires financial reports (OECDiLibrary, 2020: 1).

In summary, an ownership structure dominated by owners in SMEs can provide certain advantages, such as agility, aligned interests, and long-term vision. However, it may also pose challenges in terms of resource constraints, capital raising, and succession planning. The specific impact on sustainability and growth depends on various factors, including the industry, the abilities of the owners, and the strategies employed by the business.

Table 4.4: Organisational sector of respondents

	Frequency	Percent
Salon; Beauty industry, personal services	60	24%
Retail, Wholesale, Catering, Accommodation	51	21%
Transport, storage, communication	43	17%
Technology	28	11%
Manufacturing	14	6%
Electricity, gas, and water	14	6%
Construction	14	6%
Financial Services, Banking, Insurance, Business services	10	4%
Property development; Construction	8	3%
Other	6	2%
Total	248	100%

Figure 4.2: Organisational sector



There were similar and higher numbers of organisations in Salon; Beauty industry, personal services, and Retail, as well as Wholesale, Catering, Accommodation, and Transport, storage, along with communication (62.1 percent) ($p < 0.001$). Only 2.4 percent respondent businesses belong to other sectors.

Figure 4.3: Number of years in operation

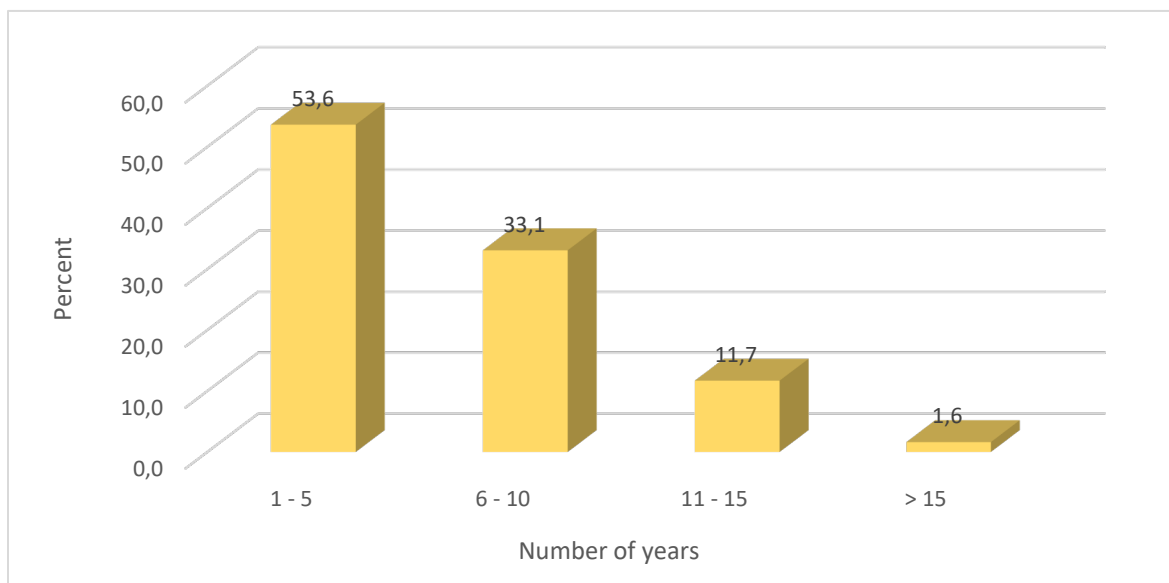


Figure 4.3 show 53.6 percent ($p < 0.001$) respondent businesses have been operating in the market for less than five years, while only 1.6 percent have been operational for more than 15 years. The findings support the countless literature that state SMEs fail within the first five years.

Figure 4.4: Number of employees

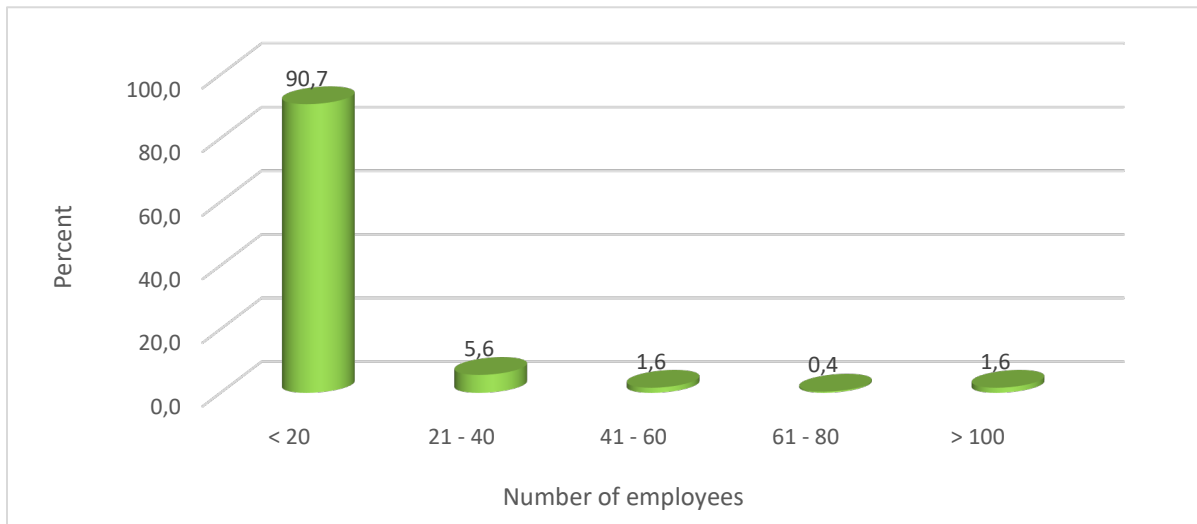


Figure 4.4 show most organisations had significantly less than 20 employees ($p < 0.001$), indicating the size of the business is still very small. Only 1.6 percent, which is not the smallest percentage, are businesses that have employed more than 100 employees. The least percentage, which is 0.4 percent of the businesses employ between 61–80 employees.

Table 4.5: Size of Board of Directors

	Frequency	Percent
< 10	241	97.2
10 - 15	4	1.6
16 - 20	3	1.2
Total	248	100.0

Table 4.5 and figure 4.7 indicate 97.2 percent of businesses that participated in the study have less than 10 members on the board of directors. Only 1.2 percent of the participating businesses have 16-20 members on the board, showing the inadequate or non-existent structures of the board of directors within the business.

4.9 Section B

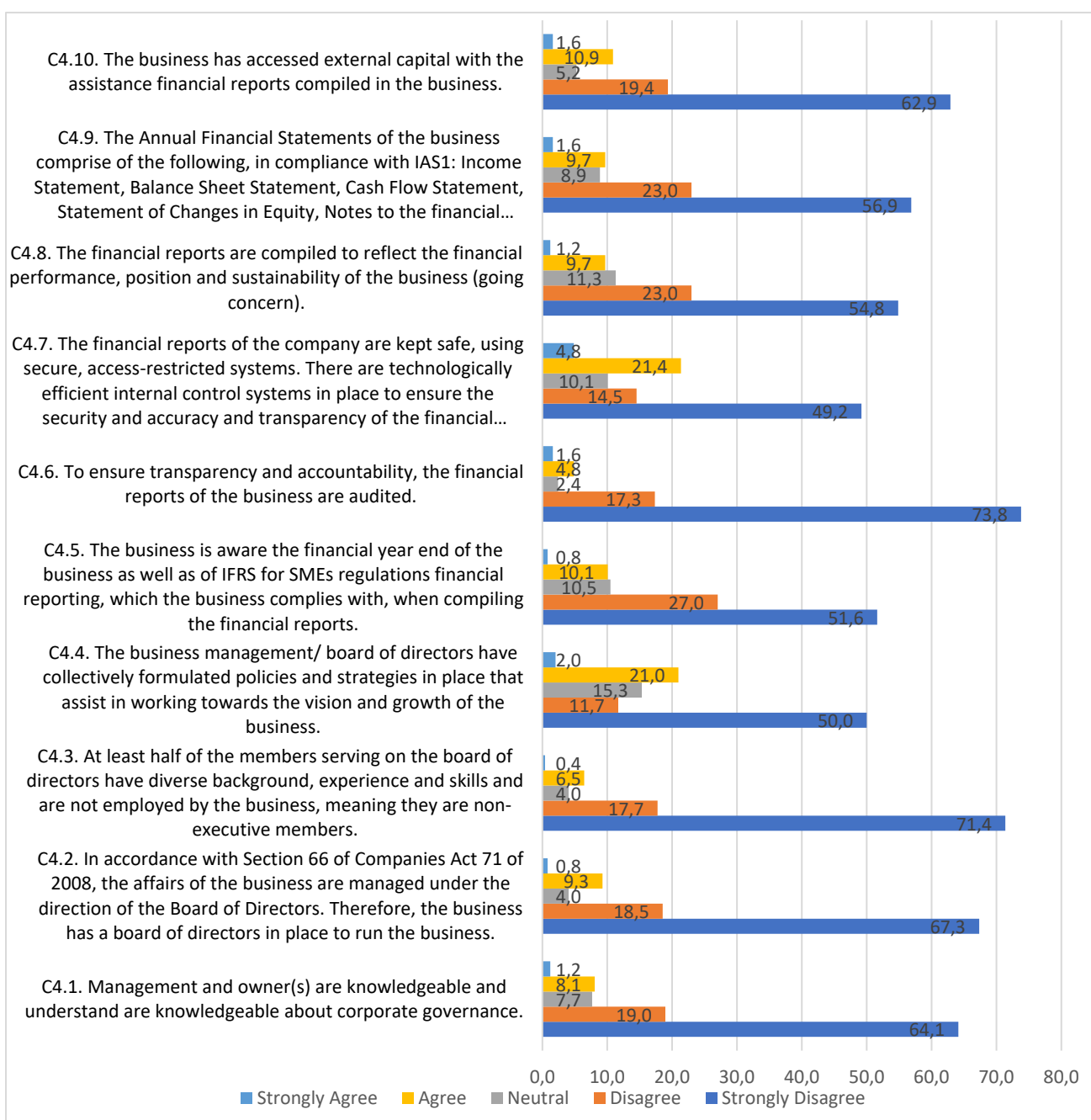
Financial reporting and corporate governance practices/ compliance in your business

Table 4.6: Analysis of statements/questions C4.1-C4.10

		Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Chi Squar e p - value
		Co unt	Row N %	Co unt	Row N %	Co unt	Row N %	Co unt	Row N %	Co unt	Row N %	
Management and owner(s) are knowledgeable and understand are knowledgeable about corporate governance.	C4 .1	159	64.1	47	19.0	19	7.7	20	8.1	3	1.2	< 0.001
In accordance with Section 66 of Companies Act 71 of 2008, the affairs of the business are managed under the direction of the Board of Directors. Therefore, the business has a board of directors in place to run the business.	C4 .2	167	67.3	46	18.5	10	4.0	23	9.3	2	0.8	< 0.001
At least half of the members serving on the board of directors have diverse background, experience and skills and are not employed by the business, meaning they are non-executive members.	C4 .3	177	71.4	44	17.7	10	4.0	16	6.5	1	0.4	< 0.001
The business management/ board of directors have collectively formulated policies and strategies in place that assist in working towards the vision and growth of the business.	C4 .4	124	50.0	29	11.7	38	15.3	52	21.0	5	2.0	< 0.001
The business is aware the financial year end of the business as well as of IFRS for SMEs regulations financial reporting, which the business complies with, when compiling the financial reports.	C4 .5	128	51.6	67	27.0	26	10.5	25	10.1	2	0.8	< 0.001
To ensure transparency and accountability, the financial reports of the business are audited.	C4 .6	183	73.8	43	17.3	6	2.4	12	4.8	4	1.6	< 0.001
The financial reports of the company are kept safe, using secure, access-restricted systems. There are technologically efficient internal control systems in place to ensure the security and accuracy and transparency of the financial reports.	C4 .7	122	49.2	36	14.5	25	10.1	53	21.4	12	4.8	< 0.001
The financial reports are compiled to reflect the financial performance, position and sustainability of the business (going concern).	C4 .8	136	54.8	57	23.0	28	11.3	24	9.7	3	1.2	< 0.001

The Annual Financial Statements of the business comprise of the following, in compliance with IAS1: Income Statement, Balance Sheet Statement, Cash Flow Statement, Statement of Changes in Equity, Notes to the financial statements	C4.9	141	56.9	57	23.0	22	8.9	24	9.7	4	1.6	< 0.001
The business has accessed external capital with the assistance financial reports compiled in the business.	C4.10	156	62.9	48	19.4	13	5.2	27	10.9	4	1.6	< 0.001

Figure 4.5: Analysis of statements/questions C4.1-C4.10



A chi-square goodness-of-fit test was used to see if there were any significant differences in the distribution of scores for each statement between the choices. The null hypothesis posits that there is no significant difference in the distribution of scores across each option for each particular statement. The alternative hypothesis posits that there exists a statistically significant disparity between the degrees of concurrence and discordance. The table displays findings that reveal certain significance values (p-values) below the threshold of 0.05, suggesting that the distributions were dissimilar. This suggests that there existed notable variations in the scoring patterns of the respondents, namely in terms of agreement, neutrality, and disagreement. (Turney, 2023: 1).

The summary displays the observed trends, as seen in Table 4.8 and Figure 4.5.

- All statements exhibit elevated levels of disagreement, but some degrees of disagreement are comparatively lower (though still surpassing levels of agreement).
- No statements demonstrate higher levels of agreement.
- The statistical significance of the observed differences is assessed and presented in the table.
- The data reveals that there is a consistent and significant degree of disagreement across all claims, with an average disagreement rate of 83.5 percent. However, two specific assertions (C4.4 and C4.7) exhibit comparatively lower levels of disagreement, with an average disagreement rate of 62.7 percent.

According to the study findings, SME compliance levels are low, with regard to elements that can build corporate governance, such as financial report presentation. This is due to a lack of understanding of the frameworks, such as IFRS for SMEs.

The findings in this study also show of the participants in the study, 38 percent are owners and 21 percent are owner-managers, significantly indicating a good number of the businesses are informal businesses, belonging to the salon, beauty and retail sectors.

Furthermore, board of director structures are not in place, as the findings indicate (C4.2) 97.2 percent respondents do not have an adequate board of directors' structure

set up, because these businesses have less than 10 members on the board. This is corroborated by 85.8 percent participants not complying to Section 66 of the Companies Act 71 of 2008 (67.3 percent strongly disagree and 18.5 percent disagree), which states: “The minimum number of directors required on a Board depending on the type of company incorporated, namely:

(a) “in the case of a private company or personal liability company at least one director; or

(b) “in the case of a public company or non-profit company at least three directors, in addition to the minimum number of directors that the company must have to satisfy any requirement, whether in terms of this Act or its Memorandum of Incorporation, to appoint an audit committee, or a social and ethics committee as contemplated in section 72(4)”

As a disadvantage, the respondents do not have a board structure that can enable the business to take full advantage of the diversity, skills and professional network accompanying a properly set-up board of directors. When the board of directors is not present in the company, it means all company management responsibilities are carried by only one person (the owner).

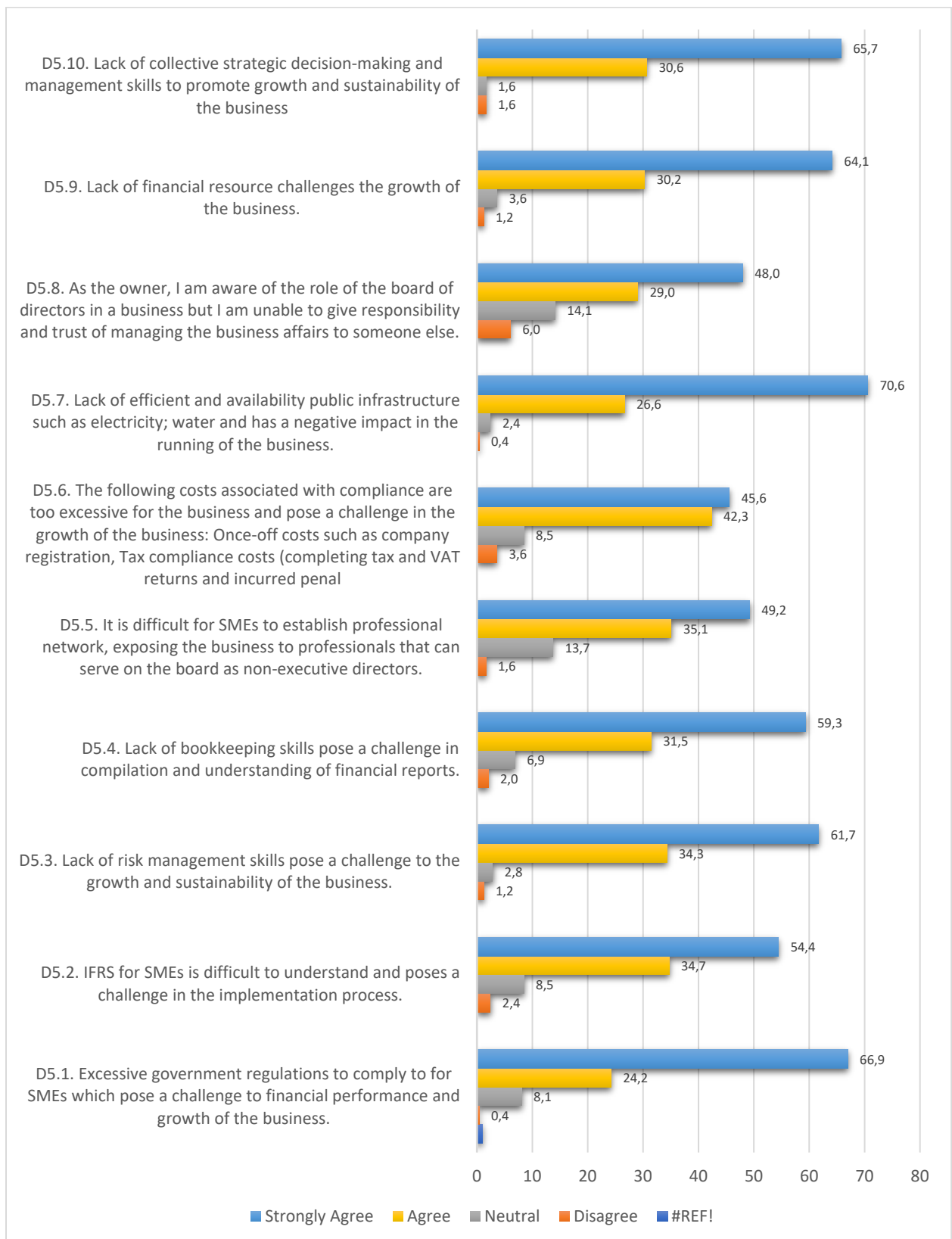
4.10 Section C

Factors that influence SME financial reporting and corporate governance

Table 4.7: Factors that influence SME financial reporting and corporate governance.

		Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Chi Square p-value
		Co unt	Ro w N %	Co unt	Ro w N %	Co unt	Ro w N %	Co unt	Ro w N %	Co unt	Ro w N %	
Excessive government regulations to comply to for SMEs which pose a challenge to financial performance and growth of the business.	D5.1	1	0.4	1	0.4	20	8.1	60	24.2	16	66.9	< 0.001
IFRS for SMEs is difficult to understand and poses a challenge in the implementation process.	D5.2	0	0.0	6	2.4	21	8.5	86	34.7	13	54.4	< 0.001
Lack of risk management skills pose a challenge to the growth and sustainability of the business.	D5.3	0	0.0	3	1.2	7	2.8	85	34.3	15	61.7	< 0.001
Lack of bookkeeping skills pose a challenge in compilation and understanding of financial reports.	D5.4	1	0.4	5	2.0	17	6.9	78	31.5	14	59.3	< 0.001
It is difficult for SMEs to establish professional network, exposing the business to professionals that can serve on the board as non-executive directors.	D5.5	1	0.4	4	1.6	34	13.7	87	35.1	12	49.2	< 0.001
The following costs associated with compliance are too excessive for the business and pose a challenge in the growth of the business: Once-off costs such as company registration, Tax compliance costs (completing tax and VAT returns and incurred penalties)	D5.6	0	0.0	9	3.6	21	8.5	10	42.3	11	45.6	< 0.001
Lack of efficient and availability public infrastructure such as electricity; water and has a negative impact in the running of the business.	D5.7	0	0.0	1	0.4	6	2.4	66	26.6	17	70.6	< 0.001
As the owner, I am aware of the role of the board of directors in a business but I am unable to give responsibility and trust of managing the business affairs to someone else.	D5.8	7	2.8	15	6.0	35	14.1	72	29.0	11	48.0	< 0.001
Lack of financial resource challenges the growth of the business.	D5.9	2	0.8	3	1.2	9	3.6	75	30.2	15	64.1	< 0.001
Lack of collective strategic decision-making and management skills to promote growth and sustainability of the business	D5.10	1	0.4	4	1.6	4	1.6	76	30.6	16	65.7	< 0.001

Figure 4.6: Analysis of statements/questions D5.1-D5.10



Data analysis: Section C

The highlighted sig. values (p-values) are less than 0.05 (the level of significance), it implies that the distributions were not similar. That is, the differences between the way respondents scored (agree, neutral, disagree) were significant (Turney, 2023: 1).

The aforementioned patterns exhibit the following characteristics:

- All of the assertions have notably elevated levels of agreement, although some levels of agreement are comparatively lower (but still surpassing levels of dissent).
- No assertions exhibit a higher degree of disagreement.
- The statistical significance of the observed differences is assessed and demonstrated in the table.

It is observed that the overall level of agreement is similar and high for all statements (average = 91.9%), with one statement (D5.8) having lower level of agreement (average = 77.0%).

The findings on Section D indicate SMEs face challenges that adversely affect their growth and sustainability, where figure 4.19 shows the scoring of the participants:

- The findings show high levels of strong agreement to different challenges faced by the SMEs.
- SMEs are unable to afford once-off costs, such as cost associated with further compliance for example, tax costs, VAT costs, as well as penalties incurred. Compliance costs contribute to SME inability to compile and present financial reports. The same costs are vital elements to corporate governance.
- Other challenges SMEs face are excessive government regulations, lack of public infrastructure, as well as lack of risk management and strategy formulation skills.

4.11 Crosstabulations

A chi-square test of independence was conducted to assess the statistical significance of a relationship between the variables (rows vs columns). The null hypothesis asserts that there is no association between the two variables, while the alternative hypothesis suggests that an association exists.

Table 4.8: Gender distribution by age

Age group (years)		Gender		Total
		Male	Female	
18 - 20	Count	2	10	12
	% within Age group (years)	16.7%	83.3%	100.0%
	% within Gender	1.3%	11.2%	4.8%
	% of Total	0.8%	4.0%	4.8%
21 - 30	Count	33	32	65
	% within Age group (years)	50.8%	49.2%	100.0%
	% within Gender	20.8%	36.0%	26.2%
	% of Total	13.3%	12.9%	26.2%
31 - 40	Count	65	36	101
	% within Age group (years)	64.4%	35.6%	100.0%
	% within Gender	40.9%	40.4%	40.7%
	% of Total	26.2%	14.5%	40.7%
41 - 50	Count	43	7	50
	% within Age group (years)	86.0%	14.0%	100.0%
	% within Gender	27.0%	7.9%	20.2%
	% of Total	17.3%	2.8%	20.2%
> 50	Count	16	4	20
	% within Age group (years)	80.0%	20.0%	100.0%
	% within Gender	10.1%	4.5%	8.1%
	% of Total	6.5%	1.6%	8.1%
Total	Count	159	89	248

% within Age group (years)	64.1%	35.9%	100.0%
% within Gender	100.0%	100.0%	100.0%
% of Total	64.1%	35.9%	100.0%

Overall, the ratio of females to males is approximately (5: 1) (83.3 percent: 16.7 percent). Within the age bracket 18-20 years, an astonishing 83.3 percent respondents are female, with 11.2 percent female respondents from the 18-20 years age bracket. The female respondents that belong to this age category formed 4 percent of the total participants.

The results show more younger women are opening their own businesses. Women entrepreneurs are contributors to the KZN economic development as well as SA, even though they are still under-represented. A recent study by Siyaya (2021: 26) shows more women are becoming entrepreneurs, as a motivation to earn extra money, providing more financial muscle either to their families or to their own sense of independence and luxurious lifestyle.

According to Stupnystka *et al.* (2014: 16), however, although women are starting their own businesses, most women-owned SMEs are of an informal nature, due to their inability to access finance. Furthermore, this results in women's "no need for credit" demeanour in business, unaware credit could provide faster growth in business towards job creation and business profitability. In addition, this indicates the lack of education and awareness regarding corporate governance and financial skills and reporting, contributing to why women opt to open SMEs that do not necessarily require intensive and extensive financing; such businesses mainly belong to the salon and beauty, as well as the service sector.

The age distributions are not similar as there are more respondents younger than 40 years ($p < 0.001$).

4.11.1 Objective 1: Level of compliance to corporate governance in SMEs

Table 4.9 Management and owner(s) are knowledgeable and understand are knowledgeable about corporate governance (Owners)

			Owner		Total
			No	Yes	
Management and owner(s) understand and are knowledgeable about corporate governance.	Strongly Disagree	Count	17	142	159
		% within Owner	37,0%	70,3%	64,1%
	Disagree	Count	6	41	47
		% within Owner	13,0%	20,3%	19,0%
	Neutral	Count	10	9	19
		% within Owner	21,7%	4,5%	7,7%
	Agree	Count	11	9	20
		% within Owner	23,9%	4,5%	8,1%
	Strongly Agree	Count	2	1	3
		% within Owner	4,3%	0,5%	1,2%
Total	Count	46	202	248	
	% within Owner	100,0%	100,0%	100,0%	

The p-value between “Management and owner(s) understand and are knowledgeable about corporate governance” and “owners of the business” is 0.000. Since the p-value is less than 0.05, this indicates that the relationship is significant. That is, the position occupied by the respondents in the business did play a significant role in terms of the level of knowledge and understanding about corporate governance.

Table 4.9 presents the responses of owners when asked about their knowledgeability and understanding, regarding corporate governance. 90.6% of owners of SMEs in the Durban, disagree that owners and management possess understanding and knowledge about corporate governance (strongly agree: 70,3% + disagree: 20.3%). This indicates that since owners do not understand corporate governance, then they are unable to implement corporate governance. Therefore, corporate governance compliance is non-existent.

Level of compliance to financial reporting in SMEs

Table 4.10: The business is aware the financial year end of the business as well as of IFRS for SMEs regulations financial reporting, which the business complies with, when compiling the financial reports (number of years that the business has been operational in the market)

			Number of years that the business has been operational in the market				Total
			1 - 5	6 - 10	11 - 15	> 15	
The business is aware the financial year end of the business as well as of IFRS for SMEs regulations financial reporting, which the business complies with, when compiling the financial reports.	Strongly Disagree	Count	73	33	22	0	128
		% within Number of years that the business has been operational in the market	54,9%	40,2%	75,9%	0,0%	51,6%
	Disagree	Count	45	22	0	0	67
		% within Number of years that the business has been operational in the market	33,8%	26,8%	0,0%	0,0%	27,0%
	Neutral	Count	5	19	1	1	26
		% within Number of years that the business has been operational in the market	3,8%	23,2%	3,4%	25,0%	10,5%
	Agree	Count	10	8	5	2	25
		% within Number of years that the business has been operational in the market	7,5%	9,8%	17,2%	50,0%	10,1%
	Strongly Agree	Count	0	0	1	1	2
		% within Number of years that the business has been operational in the market	0,0%	0,0%	3,4%	25,0%	0,8%
Total	Count	133	82	29	4	248	
	% within Number of years that the business has been operational in the market	100,0 %	100,0 %	100,0 %	100,0 %	100,0 %	

Table 4.10 presents the cross tabulation between the SMEs awareness and compliance to IFRS for SMEs, which they adhere to when compiling financial reports in relation to the number of years the business has been operating in the market. The p. value is 0.000, indicating that the relationship is significant.

The findings show that 88.7% (54.9% + 33.8%) of the businesses that have been operating in the market between 1 – 5 years disagree that the SMEs are aware of their financial year end and essentially do not comply with financial report compilation. The findings also state that 67% (40.2% + 26.8%) of the businesses that have been

operating in the market for 6-10 years also disagree that they are aware of their financial year end and in essence, comply with regulations of financial reporting.

75.9% of the businesses that have been operating for 11-15 years strongly disagree financial year end awareness as well as compliance to financial compilation through IFRS for SMEs adherence.

According to the findings on this table, however, 75% of the businesses that have been operating for longer than 15 years agree with the statement, confirming that they are aware of their financial year end as well as comply with financial reporting compilation through IFRS for SMEs.

From this cross tabulation, the conclusion drawn is that the longer the business is in operation, the more likely they see the importance of compliance of financial reporting and thus begin to comply.

4.11.2 Objective 2: Challenges influencing compliance to corporate governance and financial reporting in SMEs.

Table 4.11: To ensure transparency and accountability, the financial reports of the business are audited (the size of the board of directors, managing the affairs of the business)

The size of the board of directors, managing the affairs of the business						
Item			< 10	10 - 15	16 - 20	Total
To ensure transparency and accountability, the financial reports of the business are audited.	Strongly Disagree	Count	183	0	0	183
		% within the size of the board of directors, managing the affairs of the business	75,9%	0,0%	0,0%	73,8%
	Disagree	Count	42	1	0	43
		% within the size of the board of directors, managing the affairs of the business	17,4%	25,0%	0,0%	17,3%
	Neutral	Count	6	0	0	6
		% within the size of the board of directors, managing the affairs of the business	2,5%	0,0%	0,0%	2,4%
	Agree	Count	8	3	1	12
		% within the size of the board of directors, managing the affairs of the business	3,3%	75,0%	33,3%	4,8%
	Strongly Agree	Count	2	0	2	4
		% within the size of the board of directors, managing the affairs of the business	0,8%	0,0%	66,7%	1,6%
Total		Count	241	4	3	248
		% within the size of the board of directors, managing the affairs of the business	100,0%	100,0%	100,0%	100,0%

The cross tabulated findings in table 4.11 present the relationship between the size of the board of directors and the auditing of financial reports to ensure transparency and accountability, which are two of the pillars of corporate governance. The p value is 0.000, indicating that the relationship is significant.

The pattern of the findings demonstrates that the larger the board of directors the higher the compliance of auditing the financial reports.

SMEs with less than 10 board of directors disagree with the statement that financial reports are audited (93.3%).

Businesses with 16-20 members of the board not only comply with the compilation of financial reports but also ensures the transparency and accountability by having the financial reports audited (100%).

Table 4.12 The financial reports of the company are kept safe, using secure, access-restricted systems. There are technologically efficient internal control systems in place to ensure the security and accuracy and transparency of the financial reports (The board of directors)

The size of the board of directors, managing the affairs of the business						
Item			< 10	10 - 15	16 - 20	Total
The financial reports of the company are kept safe, using secure, access-restricted systems. There are technologically efficient internal control systems in place to ensure the security and accuracy and transparency of the financial reports.	Strongly Disagree	Count	122	0	0	122
		% within the size of the board of directors, managing the affairs of the business	50,6%	0,0%	0,0%	49,2%
	Disagree	Count	36	0	0	36
		% within the size of the board of directors, managing the affairs of the business	14,9%	0,0%	0,0%	14,5%
	Neutral	Count	25	0	0	25
		% within the size of the board of directors, managing the affairs of the business	10,4%	0,0%	0,0%	10,1%
	Agree	Count	50	1	2	53
		% within the size of the board of directors, managing the affairs of the business	20,7%	25,0%	66,7%	21,4%
	Strongly Agree	Count	8	3	1	12
		% within the size of the board of directors, managing the affairs of the business	3,3%	75,0%	33,3%	4,8%
	Total	Count	241	4	3	248
		% within the size of the board of directors, managing the affairs of the business	100,0%	100,0%	100,0%	100,0%

Table 4.12 presents cross tabulated findings with the p value of 0.000, which is a significant relationship between the size of the board of directors and the company's usage of technologically efficient internal control systems, that ensure security, transparency and accountability of financial reports.

The data reflects that 65.5% of SMEs that participated in the study have board of directors, comprising of less than 10 members disagree that their financial reports are kept in secured and access-restricted systems. Consequentially, this means there are non-existent internal control systems implemented in the company.

Businesses that have more between 10 – 15 members of the board agree with the statement that their financial reports of the company are kept safe, using secure, access-restricted systems. There are technologically efficient internal control systems in place to ensure the security and accuracy and transparency of the financial reports (100%).

The companies that participated in the study that have a board of directors that consist of 16-20 members agree that access-restricted and secure internal control systems have been implemented in the company (100%).

The relationship illustrated in these findings indicate that a company with a larger board size is able to formulate policies and implement various internal control systems that ensure the security of vital company information such as financial reports. In essence, a large board of directors means leadership has different expertise, that can formulate multi-faceted policies, vision, objectives, strategies, values and ethical culture (governance) that foster growth and sustainability of the business Ramalepe (2021: 44).

4.12 Correlations

The (ordinal) data was also subjected to bivariate correlation. The Pearson's correlation coefficient, Spearman's rho, Kendall's tau-b. and their significant levels are calculated using bivariate correlation procedure. Correlations assess the relationship between different variables or rank order IBM (2021). The appendix contains the results, which show the following patterns. Positive results show a linear relationship between the variables, while negative results show an inverse relationship. A * or ** denotes the existence of all significant relationships. The correlations address the third objective where the impact or influence of the challenges to the SMEs are examined.

4.12.1. Directly proportional relationships

Directly proportional relationship exhibits a positive linear relationship between two variables. As one increases, so must the other. E.g. the increase of X affects Y by causing Y to increase as well. The significant correlations selected show a positive relationship. All figures are found in the Spearman's correlation table in Annexure 3.

- Analysis 1.

The positive relationship between the following statement is demonstrated: "The financial reports are compiled to reflect the financial performance, position and sustainability of the business (going concern)" and "To ensure transparency and accountability, the financial reports of the business are audited." The correlation between the two mentioned statements is **0.578****. This is a directly related proportionality. Respondents indicate that the more financial reports are audited, the more accurate is the representation of the organisation's financial performance, position and sustainability would be, and vice versa.

- Analysis 2

The correlation between "The Annual Financial Statements of the business comprise of the following, in compliance with IAS1: Income Statement, Balance Sheet Statement, Cash Flow Statement, Statement of Changes in Equity, Notes to the financial statements" and "The business has accessed external capital with the assistance financial reports compiled in the business" is **0.727****

Respondents indicate that the more the complies with IAS1 in compiling their annual financial statements, the greater the chances of accessing external capital.

4.12.2. Inversely proportional relationships

Inversely proportional relationship exhibits a negative linear relationship between two variables. As one increases, the other decreases. E.g. the increase of X affects Y by causing Y to decrease. The significant correlations selected show a negative relationship.

- Analysis 1:

The correlation between “Management and owner(s) are knowledgeable and understand are knowledgeable about corporate governance” and “Lack of risk management skills pose a challenge to the growth and sustainability of the business” is **-0.340****. The respondents demonstrated that the more knowledge and understanding they possess about corporate governance, the less the negative impact of lack of risk management on the sustainability and growth of the business.

- Analysis 2

The correlation between “The financial reports are compiled to reflect the financial performance, position and sustainability of the business (going concern)” and “Lack of financial resource challenges the growth of the business” is **-0.339**. The participants demonstrated that the greater the transparency and accuracy of the financial reporting, compiled on a (going concern), the of lack of financial resources, negatively impacting the sustainability decreases.

4.13. Hypothesis Testing

The statement of statistical significance must always be included when reporting results using the conventional method. A p-value is generated as an outcome of a statistical test. A p-value less than 0.05 for all values denoted by an asterisk (*) indicates statistical significance. Asterisks (*) are used to signal significant results, while two asterisks (**) are used to indicate values with a p-value less than 0.01. A supplementary Chi square test was performed in order to determine whether there is

a statistically significant relationship between the variables, namely the rows and columns. Based on the null hypothesis, there exists no observable correlation between the two variables. The alternative hypothesis posits the existence of a relationship between the variables. The presence of an asterisk (*) signifies a correlation significance at the 0.05 level (two-tailed), whereas two asterisks (**) indicate a correlation significance at the 0.01 level (two-tailed).

** . Correlation is significant at the 0.01 level (2-tailed).

All statements indicated a correlation significance at 0.01 level.

4.14 Structural Equation Model

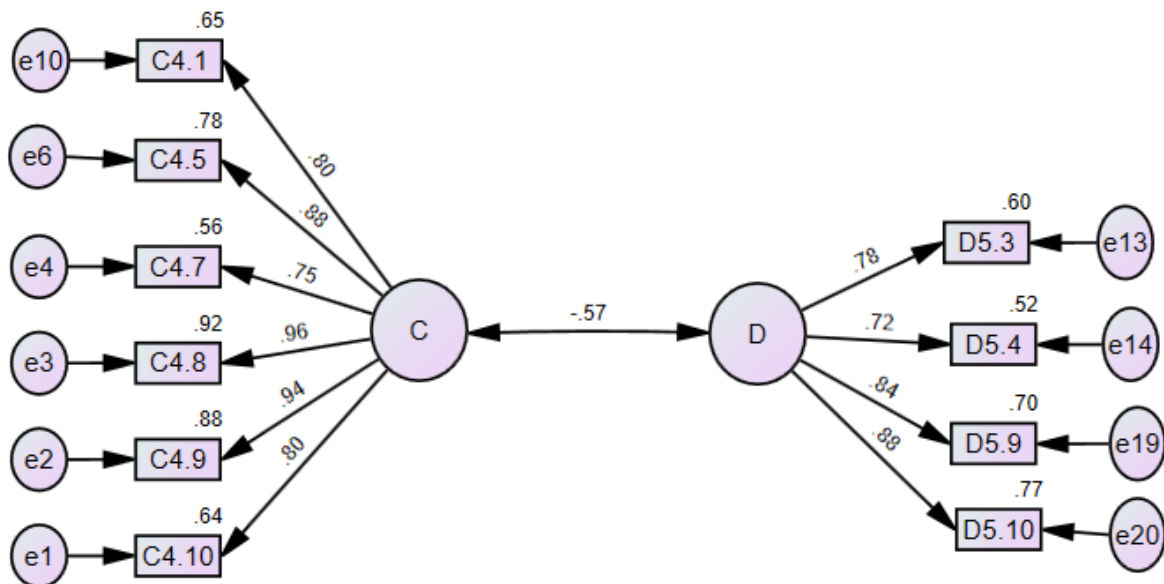


Figure 4.6 The path diagram for the modified SEM is shown above.

The model is a multifaceted statistical outcome, derived from the usage of structural interconnections and implementing amalgamations of factor examination with multiple progression analysis procedures. It serves to assess the organisational correlation amongst measured variables and hidden constructs.

The dimensions are coded as under reliability.

4.14.1 Result (Default model)

Minimum was achieved

Chi-square = 139.995

Degrees of freedom = 34

Probability level = .000

The Chi-square test confirms or refutes the null hypothesis, suggesting that a simplified model is as accurate in data representation like an entirely recognised one. In a solely identified model where each variable directly connects with others (bypassing any intervening ones), the fit will always be impeccable, rendering consistently zero Chi-square value. The probability should not carry significance.

Herein this context, it's noteworthy to mention that chi square p-value of under 0.050 ($p < 0.001$) has been obtained for our specific model.

Though, in theory, the Chi-Square should be non-significant in model testing, it is important to remember that this is very difficult to achieve because a high sample size is typically needed. Therefore, if the significance of the aforementioned factor is indeed substantial, it does not pose a concern as long as the other measures of compatibility are satisfactory.

4.14.2 Maximum Likelihood Estimates

Table: 4.13 Regression Weights: (Group number 1 - Default model)

	Estimate	S.E.	C.R.	P	Label
C4.10 <--- C	1.000				
C4.9 <--- C	1.156	.063	18.300	***	par_1
C4.8 <--- C	1.174	.062	18.959	***	par_2
C4.7 <--- C	1.176	.089	13.213	***	par_3
C4.5 <--- C	1.055	.063	16.716	***	par_4
C4.1 <--- C	.939	.064	14.616	***	par_5
D5.3 <--- D	.840	.058	14.389	***	par_6
D5.4 <--- D	.946	.074	12.860	***	par_7
D5.9 <--- D	1.031	.065	15.956	***	par_8
D5.10 <--- D	1.000				

The variables loaded strongly along their various factors (significant p-values indicated by *** $p < 0.001$). These verify the Exploratory Factor Analysis (EFA) obtained under factor analysis.

Table 4.14 Standardised Regression Weights: (Group number 1 - Default model)

	Estimate
C4.10 <--- C	.799
C4.9 <--- C	.937
C4.8 <--- C	.959
C4.7 <--- C	.746
C4.5 <--- C	.883
C4.1 <--- C	.805
D5.3 <--- D	.777

	Estimate
D5.4 <--- D	.719
D5.9 <--- D	.836
D5.10 <--- D	.877

The parameters are ascertained through Maximum Likelihood methodologies, an iterative procedure striving to maximise the probability of correct predictions for received criterion variable values. Each coefficient exceeded the recommended 0.600 value. Statements with coefficients greater than 0.60 that were repetitive were excluded from the model.

4.14.3 Model Fit Summary

The proposed value for the relative chi-square, denoted as CMIN/DF, ideally should not exceed 5 in order to minimise reliance on sample size. In contrast, appropriate thresholds for TLI, CFI, NFI and IFI lie within a range from zero to one. Furthermore, an RMSEA value that is less than or equal to 0.05 typically signifies a satisfactory model fit.

Table 4.15 CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	31	139.995	34	.000	4.118
Saturated model	65	.000	0		
Independence model	20	2143.149	45	.000	47.626

The observed model and the independence model are compared with the saturated model using the Chi-square statistic. The relative chi-square, represented as CMIN/DF, is utilised as a metric to quantify the degree to which the adequacy of data fitting to a certain model is diminished upon exclusion of particular pathways. The denominator in question, which has a value of 4.118, meets specified criteria pertaining to CMIN standards.

Table 4.16 Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.935	.914	.950	.933	.949
Saturated model	1.000		1.000		1.000

Model	NFI	RFI	IFI	TLI	CFI
	Delta1	rho1	Delta2	rho2	
Independence model	.000	.000	.000	.000	.000

As opposed to the flooded model, the independence model is compared in this directory's goodness of fit examination. The calculation of the Normed Fit Index (NFI) involves determining the ratio between the difference in chi-square values of two models and the chi-square value of the independence model. The NFI value found for the provided data is 0.935, surpassing the suggested threshold of 0.90, which suggests a robust match. The Comparative Fit Index (CFI) employs a similar approach by employing a noncentral chi-square, making it a dependable measure that can be efficiently utilised even when dealing with small sample sizes. The measure under consideration exhibits a range of values that extends from 0 to 1, akin to the NFI. A result of 0.90 suggests a satisfactory degree of fit. The obtained coefficient of fit (CFI) value of 0.949 suggests that the model exhibits an acceptable level of fit.

Table 4.17 Root Mean Square Error of Approximation (RMSEA)

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.112	.093	.132	.000
Independence model	.434	.419	.450	.000

A statistical tool used to quantify the degree of misfit between a provided model and the saturated model is the Root Mean Square Error of Approximation, or RMSEA. A Root Mean Square Error of Approximation (RMSEA) result that is equal to or below 0.050 is considered to indicate an excellent fit, whilst a value within the range of 0.050 to 0.080 shows an adequate fit. The lower and upper boundaries of a 90% confidence interval for this estimate are commonly referred to as LO 90 and HI 90, respectively. The Root Mean Square Error of Approximation (RMSEA) indicates that the model's fit is unsatisfactory, as supported by the significant PCLOSE score (< 0.001). The condition at hand does not meet the necessary threshold of 0.050.

4.14.4. Regression Analysis

The level of significance relates to the strength of the relationships. The correlations are tested below.

Covariances: (Group number 1 - Default model)

	Estimate	S.E.	C.R.	P	Label
D <--> C	-.280	.041	-6.801	***	par_9

Correlations: (Group number 1 - Default model)

	Estimate
D <--> C	-.572

Null hypothesis: There is no correlation between the dimensions

Alternate hypothesis: There is a significant correlation.

In general, if the co-variance between two constructs is significant, then correlations between them should also be significant as correlation is standardised form of co-variance and both shows the strength and direction of relationship.

The relationship is significant ($p < 0.001$). The results indicate a strong, inversely proportional relationship between the latent variables, with r being negative.

4.14.5. Summary

Several factors (statements) were excluded from the model. Upon examination of the coefficients associated with each latent variable, it was observed that there were substantial factor loadings. Furthermore, the graphic displays the route coefficients. The latent variables have a positive association, as indicated by the positive coefficients.

Given that this concept was just established, it is anticipated that the structural linkages may not have been correctly aligned. Nevertheless, after meeting specific criteria, it may be concluded that the model is a satisfactory fit. Therefore, it is suggested that the model be improved by considering the measured variables that make up the latent variables in order to enhance the factor loadings.

4.15 Conclusion

In this chapter, the data analysis, interpretation of participants' responses was presented. The data was presented to describe the levels of compliance to corporate governance and financial reporting in SMEs. SMEs have a series of challenges that impact the sustainability and growth of the businesses. Overall, the results

demonstrated that SMEs do not have a board structure in place, which are responsible for strategic decisions and that, according to the data has an effect on the sustainability. Furthermore, the board of directors is a body that ensure policy formulation and compliance process is decided on and implemented in the business, as a whole (governance). Consequently, the absence of corporate governance impacts the transparency and reliability in financial reporting, which extends to the sustainability of the business negatively. If governance is present and functioning at its optimum level, then risks that can impact the business growth negatively are minimised. If governance is functioning, then compliance becomes easier.

In the next chapter, more results, emerging from the study in the form of findings from the study, findings from the literature as well as findings from the empirical study will be discussed and from them, recommendations and conclusions will emerge. In addition, limitations of this study and areas for further studies will be discussed. Finally, the chapter will end with the note concluding the study.

CHAPTER 5

CONCLUSIONS, RECOMMENDATIONS

5.1 Introduction

The findings derived from the data obtained through a questionnaire administered to 248 SMEs that took part in the study were presented and examined in the preceding chapter. The results were presented and analysed using descriptive and inferential statistics. This study investigates the impact of corporate governance on the financial reporting of SMEs. This chapter will provide a concise overview of the study's findings. Conclusions will be derived from the findings. The present study will outline its limitations and provide potential topics for additional investigation.

5.2 Aims and objectives

5.2.1 Aim

The aim of the study is to examine the role of corporate governance in the reliability of financial reports of SMEs in Durban, KwaZulu-Natal.

5.2.2 Objectives

The research objectives of the study are

- To examine the financial reporting and corporate governance practices in SMEs.
- To identify the factors influencing financial reporting and corporate governance in Durban SMEs, in the KZN province.
- To determine to what extent these identified factors affect financial reporting and corporate governance in SMEs in Durban, KZN.

This research study was conducted to investigate the aim, through achieving the objectives. The conclusions are presented under five themes to determine whether the objectives were achieved or not.

5.3 Summary of findings

Theme 1: The challenges influencing compliance of corporate governance in SMEs

- The lack of knowledge and awareness

SMEs in Durban face challenges in complying with corporate governance due to factors such as the lack of knowledge and awareness about corporate governance principles, limited availability of resources, and the absence of regulatory frameworks. In addition, there is a lack of training and support for SMEs in Durban to understand and implement effective corporate governance practices. Additionally, the cultural and traditional mindset of many SMEs in Durban may also hinder their ability to fully embrace and comply with corporate governance principles.

- The absence of a board of directors in SMEs in Durban

Moreover, the lack of transparency and disclosure requirements in SMEs in Durban limits the effectiveness of corporate governance practices. Additionally, the limited resources and managerial capacities in SMEs hinder the implementation of robust corporate governance structures in Durban. The limited managerial capacities and lack of corporate governance structures are major challenges for compliance with corporate governance in SMEs in Durban. The challenges of compliance with corporate governance in SMEs in Durban include the absence of a board of directors, lack of transparency and disclosure requirements, limited resources and managerial capacities.

- Over-regulation and complex administrative burdens

Over-regulation and complex administrative burdens pose significant challenges to the compliance of corporate governance in SMEs in Durban. These challenges make it difficult for SMEs to implement and maintain effective governance structures. As a result, many SMEs in Durban struggle to separate

ownership and management, hindering their long-term organisational growth. To address these challenges, it is crucial for the government to support SMEs in Durban by reducing regulatory burdens and simplifying administrative processes. The government's support in easing the burden of regulation and taxation would encourage tax compliance and provide a conducive environment for SMEs to improve their corporate governance practices and ensure their sustainable growth.

Theme 2: The challenges of compliance financial reporting in SMEs

- Lack of awareness of financial reporting standards

Lack of awareness of financial reporting standards and regulations is a major obstacle faced by SMEs in Durban when it comes to compliance with financial reporting. Lack of awareness regarding important details, such as the financial year end date, poses a challenge for SMEs in Durban in complying with financial reporting regulations. The limited resources of SMEs in Durban make it difficult for them to invest in hiring outside expertise to ensure compliance with financial reporting standards and regulations. SMEs in Durban often struggle with the lack of knowledge and understanding of financial reporting standards and regulations, which hampers their ability to comply effectively.

- Lack of bookkeeping skills

Lack of bookkeeping skills and knowledge among SME owners contributes to the challenges of financial reporting compliance in Durban. Additionally, limited resources and financial constraints make it difficult for SMEs in Durban to hire professional accountants or invest in accounting software. Some of the key challenges faced by SMEs in Durban regarding financial reporting compliance include inadequate accounting books and records, the lack of manpower, outdated accounting systems, and the reluctance to conduct transactions through formal banking channels in order to avoid detection and taxation.

- The cost of compliance

The cost of compliance is often seen as a burden for SMEs in Durban, as it diverts limited resources away from other aspects of business operations. Therefore, SMEs in Durban face challenges in meeting the administrative regulations and requirements related to financial reporting. To address these challenges, it is important for SMEs in Durban to prioritize financial literacy and education among owners and employees. Additionally, providing accessible and affordable resources and support, such as training programs or consultancy services, can help SMEs in Durban improve their accounting practices and comply with financial reporting regulations.

Theme 3: The vitality of board of directors/ collective management in implementation of corporate governance and financial reporting on the SMEs

- The impact of skilled professional collective management, serving as a board of directors on corporate governance compliance in SMEs in Durban is crucial for ensuring transparency, accountability, and ethical practices within these organisations. The active involvement of a skilled and professional board of directors is essential for ensuring corporate governance compliance within SMEs in Durban. This can greatly contribute to transparency, accountability, and ethical practices within these organisations. It is important to note that the role of the board of directors can have a significant impact on sustainability disclosure and stakeholder engagement, especially in the context of regulatory changes. Additionally, the composition of the board, including factors such as board size, independence, and diversity, can influence the level of disclosure in the annual report.
- The impact of skilled professional collective management, serving as a board of directors on financial reporting compliance in SMEs in Durban Businesses in Durban can greatly benefit from implementing skilled professional collective management, in the form of a board of directors, to improve financial reporting compliance. Studies have shown that board size, management skill level, and the presence of non-executive directors positively impact the performance and compliance of SMEs in various contexts. Moreover, the involvement of

competent non-executive directors has been found to enhance compliance with International Financial Reporting Standards, leading to better risk disclosure and quality of financial reporting.

Theme 4: The role of corporate governance in the reliability of financial reporting.

- Through mechanisms such as enhanced financial risk management disclosures, transparency, and accurate disclosure of material matters, corporate governance frameworks help reduce information asymmetry between a firm's management and stakeholders. This, in turn, can lead to higher valuation of companies with stronger transparency and disclosure practices. Additionally, strong corporate governance structures have been linked to improved financial reporting quality, particularly in terms of the strength of the board of commissioners and audit committees. These mechanisms not only ensure adherence to international financial reporting standards but also enhance the reliability and credibility of corporate financial statements.

Theme 5: The role of reliable financial reporting in the sustainability of the SMEs.

- Reliable financial reporting plays a crucial role in the sustainability of SMEs. It allows SMEs to provide transparent, credible, and reliable financial reports, promoting corporate disclosure and safeguarding the interests of stakeholders. Adhering to financial reporting standards also fosters good corporate governance practices, further enhancing stakeholder trust and confidence in the operations of SMEs. Additionally, integrating sustainability reporting into their businesses enables SMEs to focus on long-term sustainability, potentially contributing to the stability of the national economy.

5.4 Findings of the study

The study goal stated in Chapter 1, was to investigate how corporate governance affects the dependability of financial reporting in SMEs in Durban, KZN. The study broadens our understanding of the internal and external obstacles SMEs must overcome in order to comply with corporate governance and financial reporting requirements. Furthermore, the study contributes insights regarding how much of an impact these difficulties have on SME expansion and sustainability, as well as strategies for reducing those difficulties.

5.5 Findings from literature

SMEs are, undoubtedly, important for a country with a developing economy. However, there are various factors that contribute greatly to the failure of these enterprises.

The study examined the importance of corporate governance and its link to the reliability of financial reporting. This was achieved by identifying the different implementations that serve as evidence to the existence of corporate governance in the business, with one of those crucial steps the presentation of the financial report.

The first step is the assembly or setup of the board of directors; an important body of decision and policy makers in the business. The concept of collective decision-making and accountability for the utilisation of business resources is one that has proved important for the business. A board of directors comes with the benefit of skilled professionals and individuals who have diverse experience and knowledge and perform the single task of managing the business affairs. The board of directors is also accountable for the decisions made in using company resources and must, subsequently, present what they have done and why.

The board is responsible for making strategic decisions that:

- Avert unnecessary risks for the business, as well as take advantage of opportunistic risks that will benefit the business by establishing policy framework that aligns the best interest of all stakeholders and profit maximisation with the ethical. Part of averting unnecessary risks, is to promote a culture of compliance to external and internal rules, regulations and legislations, thus, avoiding penalties and dire consequences.

- Maximise effective utilisation of the business financial resources to produce maximum profits, as well as account to the stakeholders of the business regarding decisions made.
- Capitalise on sustainability and growth of the business by formulating policies to establish a culture that promotes the company values, which promote fairness and transparency in the company.

In essence, the board of directors/collective management is responsible for the direction of the company, policy formulation that reflect the corporate governance, implementation, control, evaluation and monitoring (Boland 2021: 2). These would assist SMEs greatly in combating and navigating around the challenges SMEs face, which ultimately contribute to their demise.

5.6 Findings from Empirical Study

The empirical study has shown SME sustainability and growth are negatively impacted by the lack of knowledge, awareness, and understanding, as well as the compliance, regarding corporate governance and financial reporting. They, therefore, find it very difficult to comply with various regulations and implement assorted structures that will ensure corporate governance and financial reporting are possible and attainable. The study objectives served as guidance.

5.6.1 Examination of financial reporting and corporate governance practices in SMEs in Durban, KwaZulu-Natal

Compliance without awareness is impossible. SMEs are not aware or knowledgeable regarding corporate governance, with SME owners operating their businesses on their own, without a board of directors in place. Consequently, strategic decision-making, risk management, financial reporting, as well as management skills, which are provided by having professional skilled personnel in the board of directors, is severely lacking. This contributes to non-provision of financial reporting within the business, thus, adversely affecting business sustainability; since external capital comes into the business via the picture provided by the financial statements and additional reports that accompany the financial statements, such as the corporate governance, directors', and risk management reports.

5.6.2 Identification of factors influencing financial reporting and corporate governance in SMEs in Durban, KZN

The government is found to play a large role in the failure of SMEs, with inefficient public infrastructure and excessive government regulations the main contributors. The country is currently in an energy crisis, where rationing of electricity is done via block-zoning, which is referred to as load-shedding. It does occur at the most inopportune times, when SMEs are open for business, which means they are, consequently, forced to close. Furthermore, unlike their larger counterparts, SMEs cannot afford the expense of a generator for uninterrupted business operations. The mechanisms the government has put in place to assist SMEs are overshadowed by challenges they are facing from the government, which affect their day-to-day operations as well as their bottom line.

SMEs also stated, among many challenges, lack of strategic decision-making, management and risk management skills also contribute to their failure. These challenges would not be as significant, if there was a collective body responsible for making decisions, as well as delegation in the day-to-day management of the business. These challenges are significant, because there is only one person responsible for raising capital, strategic decision-making, risk management, and financial-resource management, as well as regulation compliance; that is too much for a single owner-manager to handle.

5.6.3. The influence of challenges on SMEs in Durban, KZN

The research clearly demonstrates that SMEs in Durban encounter substantial obstacles that have a direct effect on their capacity to maintain long-term viability and expand. SMEs in the region have significant challenges such as inadequate leadership, restricted financial resources, inadequate government assistance, and growing competitiveness. These issues not only impact the efficacy and inventive capacities of SMEs, but also impede their capacity to participate in the global market. Hence, it is imperative to tackle these obstacles in order to ensure the sustained expansion and prosperity of SMEs in Durban, KwaZulu-Natal (KZN).

5.7 Findings with theoretical framework

5.7.1. Stakeholder theory

The stakeholder theory supports the study in the notion that corporate governance plays a role in the reliability of financial reports in SMEs. According to the stakeholder theory, good corporate governance enhances firm-stakeholder relationships and fosters corporate sustainability, including financial sustainability. This means that when SMEs have effective corporate governance practices in place, it increases trust and accountability towards stakeholders, which can contribute to the reliability of their financial reports.

5.7.2. Stewardship Theory

The stewardship theory supports the study in the notion that corporate governance plays a significant role in ensuring the reliability of financial reports in SMEs. According to the stewardship theory, managers are seen as trustworthy and responsible stewards of company resources. They are expected to act in the best interests of the company and its stakeholders, which includes providing accurate and transparent financial information. The power granted to managers in the stewardship theory allows them to effectively oversee and manage the financial reporting process, ensuring that it is done accurately and in accordance with established standards and regulations.

5.8 Suggestion for further study

There are many challenges faced by SMEs in Durban, more than those outlined in the study. With the ever-changing and ever-evolving environment and economy, SMEs are presented with much learning and many opportunities they can take advantage of.

Areas for further study are always present as there is no research complete in itself. Therefore, some of the additional research could focus on:

Size of collective advisors or board of directors that can affect the growth of SMEs through corporate governance and financial reporting implementation.

5.9 Recommendations

Sustainability and growth are affected by the challenges explored in the study. Addressing some of the challenges SMEs face, which are mentioned in the study, may assist in lowering the depressingly high rate of SME failures.

Governance should be the main concern and a starting point for any business, particularly SMEs.

Some simpler ways that collective management/ board of directors can implement corporate governance and financial reporting within SMEs in Durban include:

- Implementing clear policies and procedures regarding financial reporting and corporate governance within the organisation such as establishing an internal control system and code of conduct.
- Providing training and development programs for board members and management staff to enhance their understanding of corporate governance principles and financial reporting requirements.
- Establishing regular monitoring and oversight of financial reporting processes to ensure compliance with corporate governance standards.
- Encouraging transparency and accountability by regularly communicating financial information to stakeholders such as shareholders and investors.
- Creating a culture of ethical behaviour and integrity within the organisation such as establishing a whistle-blower policy and promoting ethical decision-making at all levels.
- Implementing internal controls and risk management practices such as regular audits and independent reviews of financial statements to identify and mitigate any potential risks related to financial reporting such as fraud or misrepresentation.
- Establishing independent audit committees to review and provide recommendations on financial reporting and corporate governance practices.
- Implementing performance evaluation systems to assess the effectiveness of corporate governance policies and practices within the organisation such as periodic review of board and management performance, assessing their adherence to corporate governance principles and financial reporting

requirements such as accuracy, timeliness, and completeness of financial statements.

- Promoting diversity in board composition to ensure a wide range of perspectives and expertise are included in decision-making processes such as gender diversity, ethnic diversity, and diverse industry backgrounds.

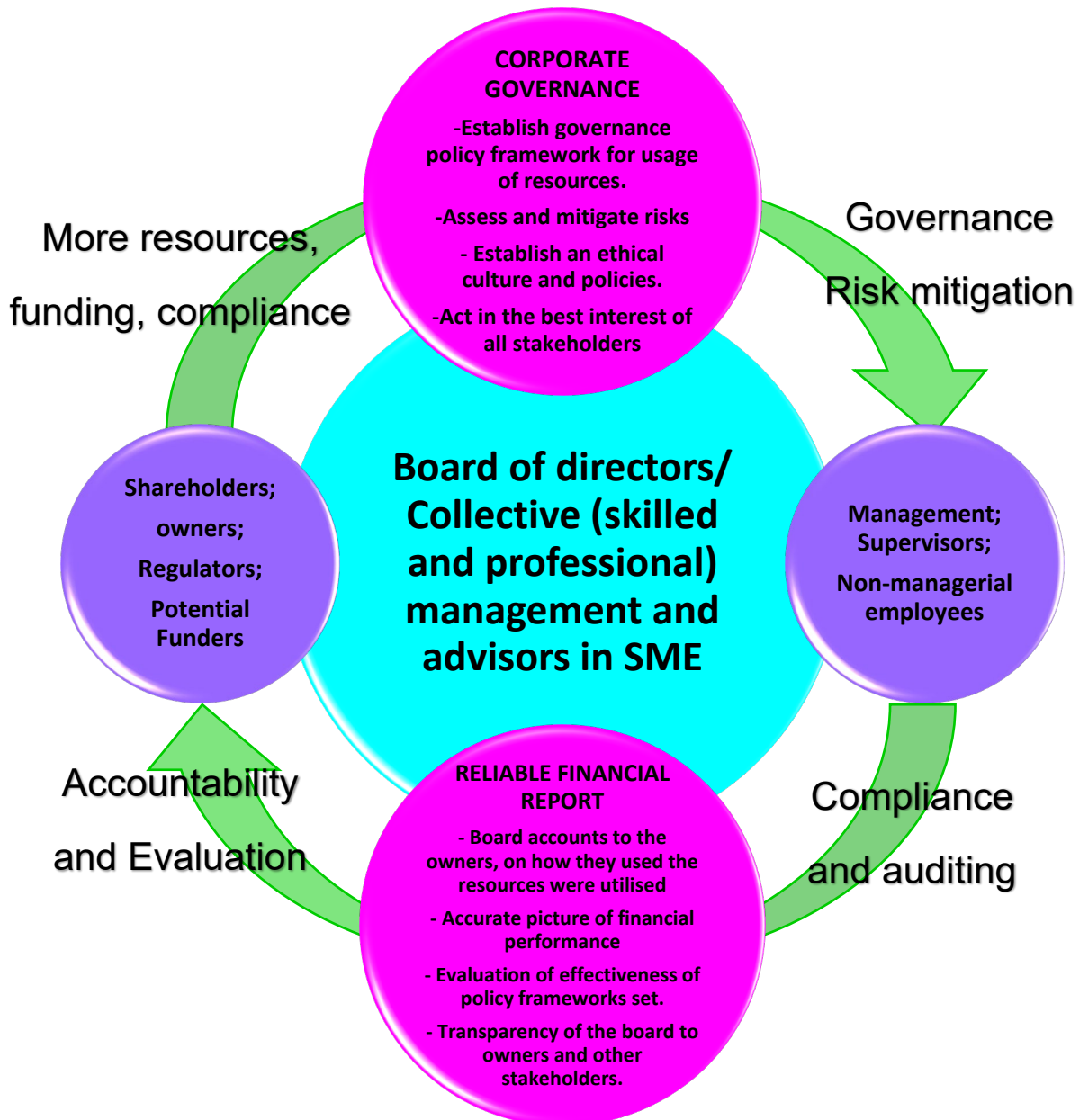


Figure 5.1: The role of corporate governance towards the reliability of financial reporting in the sustainability and growth of the SME.

Developed by the researcher.

Overall, by implementing these simpler ways of collective management, SMEs in Durban can effectively implement corporate governance and financial reporting practices that contribute to their growth and success.

5.8 Limitation of the study

This research makes no claims to have comprehensively explored all difficulties associated with the contribution of corporate governance to the accuracy of financial reporting in Durban SMEs. This study was conducted on SMEs in Durban, KZN.

The researcher collected data in Durban only and the empirical study represents the SME community of Durban, KZN. The researcher is not generalising the data collected to represent the SMEs of the entire country.

5.9 Concluding note

This study agrees with other literature that SMEs are vital to the economy of Durban, therefore, SMEs need a fertile environment to grow.

The study identified SMEs need more attention, in terms of strategic policies, governance, and exposure to platforms where professional networks can be built. These networks expose businesses to individuals that can serve as non-executive board members.

Financial reporting and corporate governance are vital tools SMEs need exposure to; they do not need to be shielded from these measures, as they also serve as a way to attract external funding. SMEs subsequently need training and skills on financial management, because their financial resources will be used strategically to generate profit. Moreover, external challenges can be navigated when internal challenges are thwarted. Corporate governance and financial reporting do assist in combating some internal challenges faced by SMEs. Good governance, good risk management and ethical compliance play a critical role in the reliability of the financial report and that is ensured by a process of auditing.

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ANNEXURES

Annexure 1: Questionnaire

QUESTIONNAIRE

This questionnaire was devised from a series of compliance regulations from the Companies Act (The Presidency 2009) and Kings Code IV.

SECTION A: DEMOGRAPHICS

1. Please indicate your gender:

Male	Female	<u>Other</u>

2. Please indicate your age:

18-20		21-30		31-40		41-50		51 +	
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3. Please indicate your position in the company

(More than one role can be indicated)

Owner	
Shareholder	

Member of the board of directors	
CEO	
CFO	
Owner/Manager	
Chairperson of the board	
Chairperson of the board committee	

SECTION B

INFORMATION PERTAINING TO THE BUSINESS.

1. Please indicate in which sector the business belongs.

1	Financial Services, Banking, Insurance, Business services	
2	Retail, Wholesale, Catering, Accommodation	
3	Manufacturing	
4	Technology	
5	Electricity, gas, and water	
6	Transport, storage, communication	
7	Property development; Construction	
8	Salon; Beauty industry, personal services	
9	Construction	
10	Other (specify)	

2. The business has been operational in the market.

1	1 - 5 years	
2	6 - 10 years	
3	11 - 15 years	
4	16 and above	

3. Please indicate the number of employees working in the business.

1	< 20	
2	21 – 40	
3	41 – 60	
4	61 – 80	
5	81 - 100	
6	101 and above	

PG 2 a

4. Please indicate the size of the board of directors, managing the affairs of the business.

< 10	
10 – 15	
15 – 20	
21 and above	

**SECTION C: Financial reporting and corporate governance practices/
compliance in your business.**

Please select the most appropriate response.

(Strongly Disagree – 1); (Disagree – 2); (Neutral – 3); (Agree – 4); (Strongly Agree – 5)

	Statement	1	2	3	4	5
4.1.	Management and owner(s) are knowledgeable and understand are knowledgeable about corporate governance.					
4.2.	In accordance with Section 66 of Companies Act 71 of 2008, the affairs of the business are managed under the direction of the Board of Directors. Therefore, the business has a board of directors in place to run the business.					
4.3	At least half of the members serving on the board of directors have diverse background, experience and skills and are not employed by the business, meaning they are non-executive members.					
4.4	The business management/ board of directors have collectively formulated policies and strategies in place that assist in working towards the vision and growth of the business.					

4.5	The business is aware the financial year end of the business as well as of IFRS for SMEs regulations financial reporting, which the business complies with, when compiling the financial reports.					
4.6	To ensure transparency and accountability, the financial reports of the business are audited.					
4.7	The financial reports of the company are kept safe, using secure, access-restricted systems. There are technologically efficient internal control systems in place to ensure the security and accuracy and transparency of the financial reports.					
4.8	The financial reports are compiled to reflect the financial performance, position and sustainability of the business (going concern).					
4.9	The Annual Financial Statements of the business comprise of the following, in compliance with IAS1:- - Income Statement - Balance Sheet Statement - Cash Flow Statement - Statement of Changes in Equity - Notes to the financial statements					
4.10	The business has accessed external capital with the assistance financial reports compiled in the business.					

SECTION D: Factors that influence financial reporting and corporate governance in your small and medium enterprises.

	Statement	SD	D	N	A	SA
5.1	Excessive government regulations to comply to for SMEs which pose a challenge to financial performance and growth of the business.					
5.2	IFRS for SMEs is difficult to understand and poses a challenge in the implementation process.					
5.3	Lack of risk management skills pose a challenge to the growth and sustainability of the business.					
5.4	Lack of bookkeeping skills pose a challenge in compilation and understanding of financial reports.					
5.5	It is difficult for SMEs to establish professional network, exposing the business to professionals that can serve on the board as non-executive directors.					
5.6	The following costs associated with compliance are too excessive for the business and pose a challenge in the growth of the business: - Once-off costs such as company registration. - Tax compliance costs (completing tax and VAT returns and incurred penalties)					

	<ul style="list-style-type: none"> - Expert-service outsourcing costs (Accountants, Tax practitioners, Auditors) - Other Compliance costs such as Labour laws and regulations; Employment Equity Act. - Municipal compliance costs 					
5.7	Lack of efficient and availability public infrastructure such as electricity; water and has a negative impact in the running of the business.					
5.8	As the owner, I am aware of the role of the board of directors in a business but I am unable to give responsibility and trust of managing the business affairs to someone else.					
5.9	Lack of financial resource challenges the growth of the business.					
5.10	Lack of collective strategic decision-making and management skills to promote growth and sustainability of the business					

Annexure 2: Research Ethics



TRREE

Zertifikat Certificat

Certificado Certificate

Promouvoir les plus hauts standards éthiques dans la protection des participants à la recherche biomédicale
Promoting the highest ethical standards in the protection of biomedical research participants



Clinical Trials Centre
The University of Hong Kong

Certificat de formation - Training Certificate

Ce document atteste que - this document certifies that

Sinenhlanhla Khumalo

a complété avec succès - has successfully completed

Introduction to Research Ethics

du programme de formation TRREE en évaluation éthique de la recherche
of the TRREE training programme in research ethics evaluation

Release Date: 2021/07/01
CID : e911q791h

Professeur Dominique Sprumont
Coordonnateur TRREE Coordinator





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Swiss Academy of Medical Science (SAMES/ASSM/SAMW) (www.samw.ch) - Commission for Research Partnerships with Developing Countries (www.afpe.ch)

[REV : 20170310]

Annexure 3: Spearman's Correlations Table

Spearman's rho	Management and owner(s) are knowledgeable and understand are knowledgeable about corporate governance.	In accordance with Section 66 of Companies Act 71 of 2008, the affairs of the business are managed under the direction of the Board of Directors. Therefore, the business has a board of directors in place to run the business.	At least half of the members serving on the board of directors have diverse background, experience and skills and are not employed by the business, meaning they are non-executive members.	The business management/ board of directors have collectively formulated policies and strategies in place that assist in working towards the vision and growth of the business.	The business is aware the financial year end of the business as well as of IFRS for SMEs regulations financial reporting, which the business complies with, when compiling the financial reports.	To ensure transparency and accountability, the financial reports of the business are audited.	The financial reports of the company are kept safe, using secure, access-restricted systems. There are technologically efficient internal control systems in place to ensure the security and accuracy and transparency of the financial reports.	The financial reports are compiled to reflect the financial performance, position and sustainability of the business (going concern).	The Annual Financial Statements of the business comprise of the following, in compliance with IAS1: Income Statement, Balance Sheet Statement, Cash Flow Statement, Statement of Changes in Equity, Notes to the financial statements	The business has accessed external capital with the assistance financial reports compiled in the business.	Excessive government regulations to comply to for SMEs which pose a challenge to financial performance and growth of the business.	IFRS for SMEs is difficult to understand and poses a challenge in the implementation process.	Lack of risk management skills pose a challenge to the growth and sustainability of the business.	Lack of bookkeeping skills pose a challenge in compilation and understanding of financial reports.	It is difficult for SMEs to establish professional network, exposing the business to professionals that can serve on the board as non-executive directors.	The following costs associated with compliance are too excessive for the business and pose a challenge in the growth of the business. Once off costs such as company registration, Tax compliance costs (completing tax and VAT returns and incurred penalties)	Lack of efficient and availability public infrastructure such as electricity, water and has a negative impact in the running of the business.	As the owner, I am aware of the role of the board of directors in a business but I am unable to give responsibility and trust of managing the business affairs to someone else.	Lack of financial resource challenges the growth of the business.	Lack of collective strategic decision-making and management skills to promote growth and sustainability of the business.
Correlation Coefficient Sig (2-tailed) N	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248	-- 248 248
Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
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Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
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Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
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Correlation Coefficient Sig (2-tailed) N	0.000 517** 248	0.000 517** 248	0.000 851** 248	0.000 542** 248	0.000 495** 248	0.000 558** 248	0.000 625** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248	0.000 495** 248	0.000 899** 248
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Correlation Coefficient Sig (2-tailed) N	0.000 517** 248																			

Annexure 4: Research approval



6 October 2022

Miss S T N Khumalo
20 Sipholile Circle
Clemaville
3602

Dear Miss Khumalo

The role of corporate governance towards a reliable financial report in small and medium enterprises in Durban, KwaZulu-Natal.
Ethical Clearance number IREC 030/21

The DUT-Institutional Research Ethics Committee acknowledges receipt of your final data collection tool for review.

We are pleased to inform you that the data collection tool has been approved. Kindly ensure that participants used for the pilot study are not part of the main study.

Please note that **FULL APPROVAL** is granted to your research proposal. You may proceed with data collection.

Any adverse events [serious or minor] which occur in connection with this study and/or which may alter its ethical consideration must be reported to the DUT-IREC according to the DUT-IREC Standard Operating Procedures (SOP's).

Please note that any deviations from the approved proposal require the approval of the DUT-IREC as outlined in the DUT-IREC SOP's.

Yours Sincerely,

Prof J K Adam
Chairperson: DUT-IREC

Annexure 5: Informed Consent



Full Title of the Study: The role of corporate governance towards a reliable financial report in the small and medium enterprises in KwaZulu-Natal, Durban.

Names of Researcher/s: Miss Sinenhlanhla Thabile Nompilo Khumalo

Statement of Agreement to Participate in the Research Study:

- I hereby confirm that I have been informed by the researcher, Miss Sinenhlanhla Thabile Nompilo Khumalo about the nature, conduct, benefits and risks of this study - Research Ethics Clearance Number:
- I have also received, read and understood the above written information (Letter of Information) regarding the study.
- I am aware that the results of the study, including personal details regarding my sex, age, date of birth, initials and diagnosis will be anonymously processed into a study report.
- In view of the requirements of research, I agree that the data collected during this study can be processed in a computerised system by the researcher.
- I may, at any stage, without prejudice, withdraw my consent and participation in the study.
- I have had sufficient opportunity to ask questions and (of my own free will) declare myself prepared to participate in the study.
- I understand that significant new findings developed during the course of this research which may relate to my participation will be made available to me.

**Full Name of Participant
Thumbprint**

Date

Time

Signature / Right

I, Sinenhlanhla T.N. Khumalo herewith confirm that the above participant has been fully informed about the nature, conduct and risks of the above study.

Sinenhlanhla T. N. Khumalo

10 July 2020

Annexure 5: Statistician Certificate

P. O. Box 24002

Hillary

4024

10 December 2022

LETTER OF CONFIRMATION

This is to confirm that I have assisted the following student with her data analysis:

Student Name	Sinenhlanhla Thabile Nompilo Khumalo
Student number	20503611
Title	THE ROLE OF CORPORATE GOVERNANCE TOWARDS THE RELIABILITY OF FINANCIAL REPORTING IN SMALL AND MEDIUM ENTERPRISES IN DURBAN, KWAZULU-NATAL
Department	Applied Law
Faculty	Management Sciences

I trust you are satisfied with the work.

Sincerely

Mr V. Singh

Annexure 6: Turnitin Report

V4 STN Khumalo Chapters 1-5

ORIGINALITY REPORT

15%	14%	5%	1%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

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Annexure 7: Editor's Letter

Helen Richter
Advanced Editing, Proofreading
& Copy writing

editassist2023@gmail.com
072 9227221

10 September 2023

To whom it may concern:

CERTIFICATE OF EDITING & AUTHENTICATION

I have proofread and language edited the Master's dissertation titled:

**"THE ROLE OF CORPORATE GOVERNANCE TOWARDS THE RELIABILITY OF
FINANCIAL REPORTING IN SMALL AND MEDIUM ENTERPRISES IN DURBAN,
KWAZULU-NATAL"**

by

Sinenhlanhla Thabile Nompilo Khumalo

The work is the author's own work, to the best of my knowledge, and is free of spelling, grammar, and structural and stylistic errors.

With thanks.

H. S. Richter (Ms)
