Business, Management and Economics Engineering
ISSN: 2669-2481 / eISSN: 2669-249X
2023 Volume 21 Issue 02

EXPLORING THE DYNAMICS OF CORPORATE GOVERNANCE IN PRIVATE SMES: THE ROLE OF OUTSIDE DIRECTORS, FAMILY CONTROL, AND BOARD MEETING FREQUENCY

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Abstract: This study delves into the intricate dynamics of corporate governance within private Small and Medium Enterprises (SMEs), focusing on the pivotal roles played by outside directors, family control, and board meeting frequency. The research investigates three key hypotheses: firstly, positing a positive and indirect correlation between the participation of outside directors and board service engagement, with information disclosure acting as a mediator; secondly, exploring the negative moderating effect of family control on the link between outside directors' attendance, board service engagement, and information disclosure; and finally, examining the positive moderating role of board meeting frequency in the association between outside directors' presence, information disclosure, and board service engagement. Through these analyses, the study aims to provide valuable insights into the nuanced governance dynamics within private SMEs, contributing to a deeper understanding of the factors influencing board engagement and transparency in this critical sector. This research investigates the multifaceted dynamics of corporate governance in private Small and Medium Enterprises (SMEs), with a specific focus on the influential factors of outside directors, family control, and board meeting frequency. Three hypotheses are examined: firstly, the study explores the positive and indirect correlation between the participation of outside directors and board service engagement, mediated by information disclosure. Secondly, it examines the negative moderating effect of family control on the link between outside directors' attendance, board service engagement, and information disclosure. Lastly, the study investigates the positive moderating role of board meeting frequency in the association between outside directors' presence, information disclosure, and board service engagement. Through these analyses, the research aims to enhance our understanding of the nuanced governance dynamics within private SMEs.

Keywords: Corporate Governance, Small and Medium Enterprises (SMEs), Outside Directors, Family Control, Board Meeting Frequency, Board Service Engagement, Information Disclosure, Governance Dynamics.

INTRODUCTION:

Contribution to the Creation of Jobs Regional Development Catalyst Overall Economic Growth: Small and medium-sized businesses (SMEs) have a significant and cumulative influence on India's national economy. Their contributions also go a long way toward influencing the economic environments of certain states, such as Chhattisgarh. SMEs jointly

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provide a sizeable portion of the country's Gross Domestic Product (GDP) as dynamic engines of economic growth. Their exceptional capacity to promptly adjust to fluctuations in the market, along with their function in broadening the economic foundation, establishes them as important agents of long-term and robust economic growth. The main factor influencing the influence of SMEs in India is their sizeable GDP contribution. When taken as a whole, these businesses represent a significant portion of the country's economy and contribute in ways that go beyond their individual proportions. Their varied activities in the manufacturing, services, and technology sectors add to the economy's total production and value addition. This diversity lowers the risks associated with reliance on a single industry while also ensuring a more strong and well-rounded GDP composition.
The economic landscape of Chhattisgarh has dynamically changed as a result of SMEs' contributions to the state's GDP. The state is renowned for its diverse sectors and wealth of natural resources, which complements the adaptability of SMEs and the range of economic activity in the region.

Contribution to the Creation of Jobs Regional Development Catalyst Overall Economic Growth Promoting Entrepreneurship: An entrepreneurial journey usually begins with ideas and goals, and SMEs provide a tangible platform for these aspirations to materialize. Because small and medium-sized enterprises (SMEs) typically have lower entry barriers than larger organizations with complex systems and extensive bureaucracy, aspiring entrepreneurs can more easily enter the corporate world. Because of its accessibility, people with innovative ideas can now realize their ideas without having to face the challenging challenges often associated with starting a business. In Chhattisgarh, where a diversified economy is the norm, SMEs are especially crucial as the breeding grounds for new ventures. The state's richness of natural resources and potential in areas like manufacturing, mining, and agriculture make it an ideal place for a wide range of company concepts to flourish. SMEs operating in Chhattisgarh often tap into these local resources and opportunities, encouraging a diverse range of entrepreneurial ventures that align with the unique characteristics of the region. SMEs are also essential in encouraging the spirit of entrepreneurship that is needed to create a dynamic and creative economy. Due to their natural flexibility, small and medium-sized businesses are better able to experiment, adapt, and welcome new ideas and solutions. In Chhattisgarh, for example, where the government actively promotes an entrepreneurial culture, the result is a dynamic economic climate characterized by creativity and agility. Creative thinking is encouraged among the region's entrepreneurs, as it fosters innovation and helps the state's economy overall. Additionally, SMEs are crucial training grounds for prospective entrepreneurs since they provide aspirant business owners with real-world experience in operations and management. Smaller companies usually expose their staff to a greater variety of company processes and have a steeper learning curve.

Contribution to the Creation of Jobs Regional Development Catalyst Overall Economic Growth Promoting Entrepreneurship Promotion of Innovation: Innovation is a cornerstone of the constantly changing economic landscape, and Small and Medium Enterprises (SMEs) are important drivers of this revolutionary power. SMEs are more flexible and sensitive to the demands of the market than larger firms, and they thus thrive on innovation. In the context of

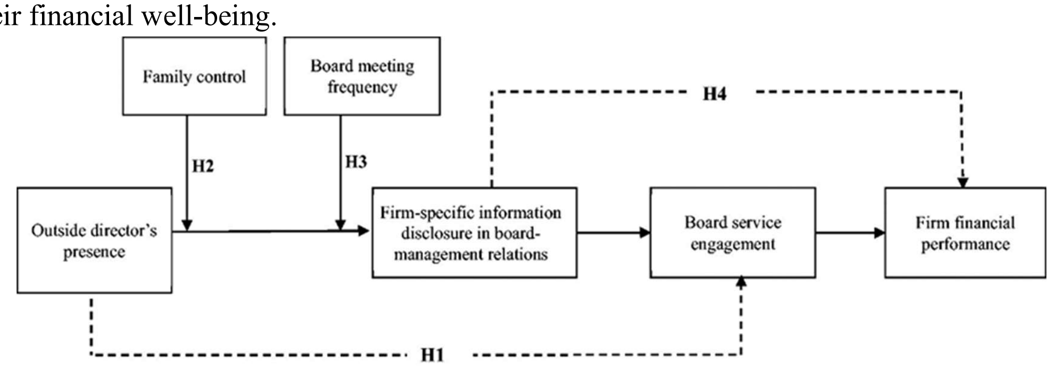
Chhattisgarh, where the industrial landscape is undergoing dramatic changes, this innate talent is especially apparent. The creative efforts of the region's SMEs greatly enhance the state's overall competitiveness on the national and international stages.
One essential quality of SMEs that makes them ideal for innovation is their flexibility. SMEs can adapt to changing market conditions faster than their larger competitors, seize new opportunities, and overcome obstacles more skillfully. Their adaptability allows them to experiment with new ideas, methods, and technology developments, fostering an environment that is conducive to creativity. The ability of SMEs in Chhattisgarh to adjust to market demands is critical to the state's ability to remain competitive in light of shifting economic conditions. Innovation is seen in many aspects of SMEs' business operations. Since entrepreneurs and business owners are constantly seeking for methods to improve their offers in terms of goods, services, and procedures, these businesses usually act as incubators for creative ideas. SMEs in Chhattisgarh are well known for their inventive approaches, resourcefulness in resolving local issues, and progressing industries in general, be it manufacturing, agriculture, or services.

Contribution to the Creation of Jobs Regional Development Catalyst Overall Economic Growth Promoting Entrepreneurship Promotion of Innovation Creating a Robust Industrial Ecosystem: Small and medium-sized businesses (SMEs) have a significant impact on the development of a strong and diverse industrial ecosystem, which goes beyond their direct contributions. SMEs are essential parts of a wider economic fabric that extends beyond their own activities, particularly as major industries depend more and more on them for services and supplies. This complex web of cooperation not only makes the industrial environment more resilient overall, but it also creates a mutually beneficial relationship between businesses of all sizes. SMEs, often characterized by their agility and flexibility, are vital parts of the machinery that drives large industries. Large corporations and small and medium-sized enterprises are closely linked, particularly in Chhattisgarh, where economic activity is dispersed among several industries. It usually involves knowledge sharing, technology transfer, and skill development. Large companies can collaborate with small and medium-sized enterprises (SMEs) to gain from their innovative ideas and utilize their adaptability to test new processes or technologies. On the other hand, through the assistance of their larger partners, SMEs have access to cutting edge technologies, industry best practices, and capacity-building programmes.

Historical Evolution as a Foundation: India's small and medium-sized enterprise (SME) history dates back to the pre-independence period, when the agrarian economy dominated the nation. After independence, industry got underway and the significance of SMEs started to become apparent. The promotion of small and medium-sized businesses was acknowledged as a crucial component of early economic development plans in order to facilitate inclusive growth. The initial Five-Year Plan (1951–1956) established the framework for industrialization, and SMEs played a crucial role in satisfying the population's varied demands. Economic policies changed over the ensuing decades in response to shifting objectives and developments in the world economy. The Indian economy was opened up by the liberalization policies of the early 1990s, which presented SMEs with both opportunities and challenges. The liberalization era provided access to new opportunities even as it also raised competition for them. The liberalization era also brought access to new markets, technologies, and avenues for growth. The historical trajectory of SMEs in Chhattisgarh, which became a separate state in 2000, is indicative of the region's distinct economic landscape, which is defined by its abundance of natural resources and wide range of sectors.

Contribution to the Creation of Jobs Regional Development Catalyst Overall Economic Growth Promoting Entrepreneurship Promotion of Innovation Creating a Robust Industrial Ecosystem Identifying Current Challenges and Opportunities in Raipur District: Small and Medium Enterprises (SMEs) are vital to the vibrant Raipur district economy and make significant contributions to regional growth. However, in spite of their significance, these companies encounter particular challenges and opportunities that shape their trajectory in this domain. Finding these components is crucial to creating targeted strategies that encourage and sustain SMEs' growth. The Raipur district, like many other places, faces infrastructure limitations that could lower the operational efficacy of SMEs. Logistical challenges, insufficient transportation networks, and erratic power supplies all be roadblocks for businesses looking to expand. These infrastructure limitations must be addressed in order to establish a setting where SMEs may collaborate easily, lessen operational bottlenecks, and boost overall productivity.

Financial institutions may view these companies as riskier assets, which would make it harder for them to obtain loans for growth or operational capital. By developing strategies to broaden their access to capital—such as targeted lending programmes, financial literacy initiatives, and partnerships with financial institutions that enable them to finance growth—SMEs can improve their financial well-being.

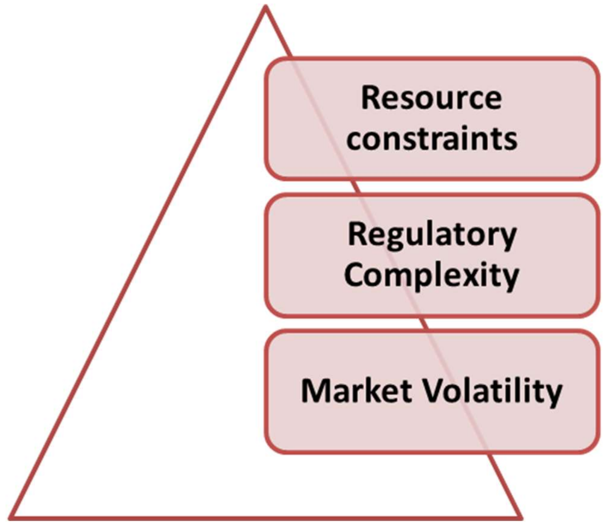


Notes: [a] Dashed lines represent indirect (i.e. mediated) relationships.

HYPOTHESES:

1. Hypothesis 1: In private SMEs, the participation of outside directors is positively and indirectly correlated with board service engagement because information disclosure acts as a mediator in the link between the two.
2. Hypothesis 2: Family control has a negative moderating effect on the mediated link between outside directors' attendance and board service engagement, as well as the relationship between outside directors' presence and information disclosure.
3. Hypothesis 3: In the link between outside directors' presence and information disclosure, board meeting frequency positively moderates the mediated association between outside directors' presence and board service engagement.

CHALLANGES:



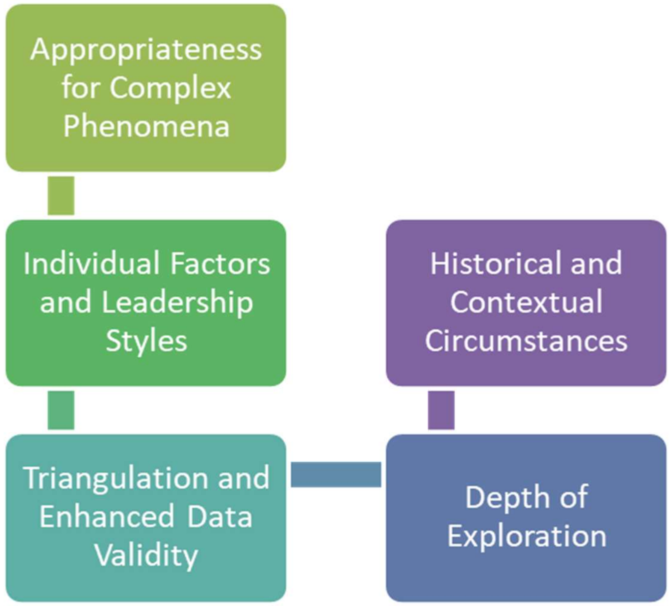
Due to their businesses' size and nature, directors in small-scale industries have particular difficulties.

Resource constraints: Financial and human resources are frequently scarce in small-scale companies. Effective management of resource restrictions is necessary for directors to strike a balance between the need to invest in growth and financial sustainability.
Regulatory Complexity: It can be difficult to navigate regulatory frameworks, particularly in sectors with little resources available for compliance. Directors are responsible for making sure the company complies with the law and staying up to date on regulatory developments.
Market Volatility: Industries with smaller scales could be more vulnerable to changes in the market. Directors need to create plans to adjust to shifting consumer needs.

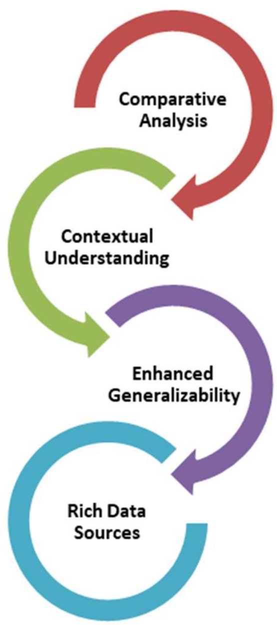
Research Design: A Qualitative Case Study Approach

A strong and illuminating technique for thoroughly examining the function of directors in small-scale industries (SSIs) in Raipur district, India, is the qualitative case study approach. This method works especially well for analysing the intricate and subtle aspects of leadership practises in SSIs. The main benefits of the qualitative case study approach are discussed below, along with how well it fits the bill for comprehending the complex dynamics of directorial roles in the setting of small-scale companies.

The utilisation of qualitative case study approach is quite beneficial in deciphering the intricacies of directorial responsibilities in small-scale companies located in Raipur area. This method is robust and effective for studying the multifaceted nature of leadership practises within SSIs because of its suitability for exploring complex phenomena, depth of exploration, consideration of historical and contextual factors, emphasis on individual factors, and ability to enhance data validity through triangulation. By using this method, researchers can offer insightful contributions that are relevant to the unique opportunities and challenges faced by directors in the ever-changing small-scale industry ecosystem of Raipur area.



Advantages of a Multiple Case Study Design: Using a multiple case study design, the study included 20 directors from SSIs that represented a range of industries, sizes, and degrees of experience. Twenty directors from small-scale enterprises (SSIs) from a range of industries, sizes, and levels of expertise are included in this qualitative case study design study on the function of directors in SSIs in Raipur district, India. This strategy has a number of benefits:



Secondary Data from Local Records: In tandem with the questionnaire data, the study harnessed local records specific to Raipur, Chhattisgarh, as a secondary data source. This local database facilitated a longitudinal perspective, enabling the measurement of firm financial performance in 2013 and 2014, as well as prior financial performance spanning the years 2009–2011.

The inclusion of lagged measurements of financial performance is crucial for capturing the dynamic nature of board service engagement and its impact over time. By incorporating historical financial data from Raipur, the study aimed to uncover trends and patterns that may not be immediately apparent in a snapshot analysis. The secondary data verification process aligned with the methodology employed for the questionnaire responses. Comparisons were made to ensure the suitability and reliability of the obtained secondary data, and the results confirmed its representative nature.

The dual-data source technique, combining primary data from a questionnaire survey with secondary data from local records, fortifies the study's methodological approach. This comprehensive strategy ensures a nuanced exploration of the relationship between board service involvement and firm financial performance among SMEs in Raipur, Chhattisgarh. The alignment of responses from different sources and the careful verification processes contribute to the overall robustness and validity of the study.

MODERATING VARIABLES:

Family Control: If the majority shareholder is a family, which is defined as two or more shareholders with familial links, family control is a dummy variable with a value of one.

Board Meeting Frequency: The number of times the board meets over a 12-month period is the actual number of meetings that respondents were asked to report for the open-ended board meeting frequency variable.

CONTROL VARIABLES:

The study controlled for various board and firm characteristics, including:

Chair/CEO Separation: A crucial component of governance is the separation of responsibilities between the chief executive officer and the chair of the board (CEO). When the chair does not hold the position of CEO concurrently, a dummy variable is set to 1. Studies by Gabrielsson (2007) and Knockaert et al. (2015), among others, have repeatedly indicated a positive association between the separation of the CEO and chair responsibilities and higher board service involvement in SMEs.

The division of these responsibilities improves board independence and decision-making efficacy as a governance mechanism. For SMEs, having separate people in charge of day-to-day operations (CEO) and strategic oversight (chair) may result in a more rounded and knowledgeable approach to leadership. This division encourages a system of checks and balances inside the organisational structure, reducing the possibility of a single person gaining a disproportionate amount of authority. The division of these responsibilities improves board independence and decision-making efficacy as a governance mechanism. For SMEs, having separate people in charge of day-to-day operations (CEO) and strategic oversight (chair) may result in a more rounded and knowledgeable approach to leadership. This division encourages a system of checks and balances inside the organisational structure, reducing the possibility of a single person gaining a disproportionate amount of authority.

Variable	Coefficient	Standard Error	p-value	VIFa
Firm Financial Performance	7.37	50.72	-	-

Board Service Engagement	0.12	0.89	0.004**	1.31
Information Disclosure	0.07	0.96	0.037*	1.29
Outside Director	0.05	0.5	0.266	1.06
Family Control	-0.05	0.46	0.298	1.09
Board Meeting Frequency	0.03	4.18	0.945	1.12
Chair/CEO Separation	0.04	0.49	0.391	1.12
Board Size	0.02	2.82	0.942	1.17
Minority Owned	0	0.49	0.99	1.04
Firm Age (ln)	0.05	0.75	0.509	1.11
Firm Size (ln)	0.02	0.64	0.782	1.18
Past Performance	0.15	35.55	0.000***	1.02

Table.01 Control Variables

Board Size: One important board attribute that affects the dynamics and efficacy of governance is board size, which is the total number of directors on the board. This variable, which was taken from the Bel-first database, enables investigation of the connection between board size and board service involvement in SMEs.

Minority Ownership: When at least one nonfamily minority shareholder is present, the minority ownership variable is displayed as a dummy variable with a value of 1. Understanding the dynamics of board service participation in the context of SMEs with varied ownership arrangements depends on this variable. It is frequently strategically necessary for SMEs with minority shareholders to guarantee their pleasure and give legitimacy to the decision-making process. In these kinds of situations, boards might be more likely to name outsiders to improve accountability, openness, and equity. The research acknowledges the impact of minority ownership on the governance dynamics of small and medium-sized enterprises (SMEs) and aims to isolate its effect on board service engagement by controlling for this variable.

Firm Age: The study's control variable is firm age, which is expressed as the natural logarithm of the number of years since the firm was founded. This variable provides information about how organisational maturity affects small and medium-sized enterprises' board service engagement. A company's age reveals something about its developmental stage and, with it, its governance procedures and requirements. Younger companies might place more value on flexibility, creativity, and quick decisions, which could have an effect on the level of board participation necessary. However, more established businesses may have different difficulties, like succession planning and long-term growth.

The research tries to account for the time dimension in understanding the relationship between various governance and firm-level characteristics and board service engagement by controlling for firm age. Given that SMEs' governance needs change with time, firm age plays a critical role in placing the results in context.

Firm Size: An important control variable in the research is firm size, which is determined by taking the natural logarithm of the average number of employees over the previous three years. This variable, which was taken from the Bel-first database, allows investigation into the ways in which board service participation in SMEs is impacted by the size of operations. An SME's governance requirements and decision-making complexity may vary depending on its size.

The null results for H1 force a reassessment of the theoretical model and the particular dynamics at work in the investigated organisations. It is conceivable that the observed associations could be caused by other factors that are not taken into account in the current hypothesis. In order to more accurately represent the subtleties of board functioning in the particular situation under study, the study thus brings up possibilities for more research and theoretical model improvement.

As a result, the rigorous testing of H1 using the bootstrapping method indicates that there is no association between the existence of an outside director and board service involvement that is mediated by information disclosure. This sophisticated knowledge adds to the current conversation on the dynamics of corporate governance and emphasises the necessity for context-specific research to fully grasp the complexities of board activities and their drivers.

	Panel A. Testing H1				**Panel B. Testing H2**				**Panel C. Testing H3**			
	Information disclosure		**Board service engagement**		**Information disclosure**		**Board service engagement**		**Information disclosure**		**Board service engagement**	
Variables	**B**	**SE**	**B**	**SE**	**B**	**SE**	**B**	**SE**	**B**	**SE**	**B**	**SE**
Intercept	2.84***	0.31	1.38***	0.35	2.62***	0.31	1.45***	0.35	3.04***	0.31	1.46***	0.36
CONTROL VARIABLES												
Board size	0.00	0.02	0.00	0.02	0.00	0.02	0.00	0.02	0.00	0.02	0.00	0.02
CEO chair separation	−0.10	0.08	0.06	0.09	−0.10	0.08	0.05	0.09	−0.11	0.08	0.10	0.09
Minority owned	−0.04	0.08	−0.01	0.09	−0.05	0.08	−0.01	0.09	−0.04	0.08	−0.02	0.09
Firm age (Ln)	−0.09	0.06	0.08	0.06	−0.09+	0.06	0.09	0.06	−0.09+	0.06	0.10	0.06
Firm size (Ln)	0.00	0.07	0.05	0.07	0.01	0.07	0.05	0.07	−0.01	0.07	0.05	0.07
Past performance	−0.00	0.00	−0.00	0.00	−0.00	0.00	−0.00	0.00	−0.00	0.00	−0.00	0.00
Moderators												
Family control	−0.20*	0.09	0.06	0.10	−0.20*	0.09			−0.20*	0.09	0.05	0.10
Board meeting frequency	0.05***	0.01	0.04***	0.01	0.05***	0.01	0.04***	0.01	0.06***	0.01		
INDEPENDENT VARIABLE												
Outside director	−0.13+	0.08	0.10	0.09	−0.13+	0.08	0.10	0.09	−0.13+	0.08	0.11	0.09
Mediator												
Information disclosure			0.55***	0.05			0.55***	0.05			0.59***	0.05
Interaction terms												

Family control*outside director					−0.34*	0.17						
BMF*outside director									0.05*	0.02		
R^2	0.07***		0.27***		0.08***		0.27***		.08***		0.25***	
F(df1, df2)	3.06 (14, 546)		13.28 (15, 545)		3.13 (15, 545)		14.22 (14, 546)		3.23 (15, 545)		12.73(14, 546)	

Table.02 Prediction of board service engagement by outside directors' presence (outside director)

H2: Mediation effect of information disclosure (H1) moderated by family control.

The investigation explores moderated mediation, as proposed in Hypothesis 2. (H2). According to this hypothesis, family control exists within the organisation in order for information disclosure to have a mediating influence in the link between an outside director and board service engagement. A methodical testing procedure was used to examine the complex dynamics of this hypothesis, and the outcomes—which are shown in Table 3, Panel B—helped to formulate significant conclusions. Most importantly, the moderation effect's strength and importance were determined by the researchers' computation of the index of moderated mediation. It was discovered that the moderated mediation index was negative (B = -0.19, 95 percent confidence interval (CI)

Between -0.37 and -0.01) and significant ($p < 0.05$). This result is consistent with the theory that family control has a moderating influence on the process of mediation between an outside director and board service involvement through information sharing.

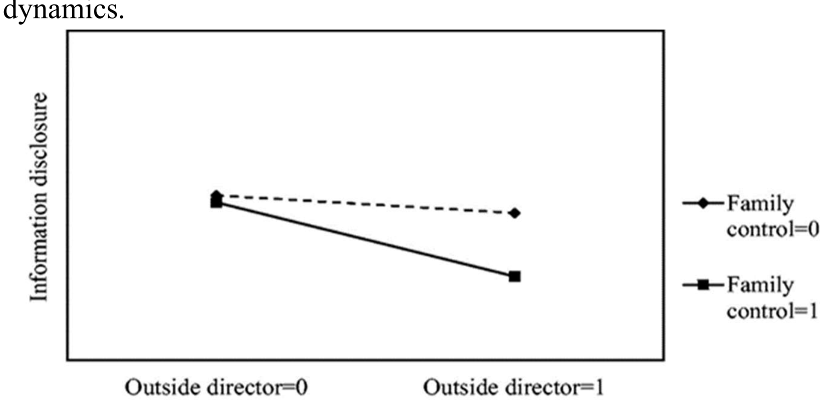
H3: Mediation effect of information disclosure (H1) moderated by board meeting frequency.

The research delves into a comprehensive analysis of moderated mediation, as proposed in Hypothesis 2. (H2). According to H2, the existence of family control within the organisation is a prerequisite for the mediation effect of information disclosure in the interaction between an outside director and board service engagement. This theory adds another level of complexity to the study by emphasising how family control may act as a moderator in the dynamics between important components of governance. The findings of this hypothesis test, which are shown in Table 3, Panel B, provide important new information on the complex interactions and contingent effects that exist in the context under study.

Interaction between Outside Director and Family Control: In order to initiate the analysis, the research aimed to determine the importance of the interplay between the existence of an outside director and family control in forecasting the disclosure of information. The results validate that this interaction term (B = -0.34, $p < 0.05$) has statistical significance, as shown in Table 3, Panel B. This discovery establishes the basis for comprehending that the correlation between the existence of an external director and information sharing varies depending on the degree of family control. Rather, the role of family control becomes apparent as a moderating element that affects the type and intensity of this relationship.

Conditional Indirect Effect and Moderated Mediation: The study then looked into the conditional indirect effect of an outside director on board service engagement based on the

moderating role of family control after determining the significance of the interaction. The conditional indirect effect was found to be significantly negative and statistically significant (B = -0.13, 95 percent CI of -0.23 and -0.03) for family-controlled enterprises. This suggests that information disclosure acts as a mediator between the influence of an outside director on board service engagement in family-controlled businesses, and the outcome of this mediation process is a decline in board service engagement. Conversely, the conditional indirect impact was not found to be significant for nonfamily-controlled enterprises (B = 0.06, 95 percent CI of -0.09 and 0.21), suggesting that the mediation effect is not noticeable in the absence of family control.
Index of Moderated Mediation: The index of moderated mediation, a crucial parameter that sheds light on the magnitude and importance of the moderating effect, was calculated by the researchers. It was discovered that the moderated mediation index was negative (B = -0.19, 95 percent confidence interval (CI) between -0.37 and -0.01) and significant ($p < 0.05$). This result is consistent with the theory that family control has a moderating influence on the process of mediation between an outside director and board service involvement through information sharing.
Graphical Representation: Overall, the empirical results provide strong support for Hypothesis 2 (H2). Information disclosure is greatly impacted by the relationship between family control and the presence of an outside director, which in turn affects board service participation. The differing effects seen in family-controlled and nonfamily-controlled enterprises clearly demonstrate the moderating influence of family control. This detailed knowledge advances our understanding of the complex relationships that exist within the framework of corporate governance dynamics.



The process of moderated mediation is illustrated graphically in Graph 2, which illustrates how an outside director's impact on board service involvement through information disclosure varies depending on whether family control is present or not. This graphical depiction improves the accessibility of the results and helps to communicate the complexities of the study’s outcomes for a broader audience.

Conclusion and Future Directions: Ultimately, the empirical results provide strong support for Hypothesis 2 (H2) and provide insight into the complex interactions between governance components in the context of both family-controlled and nonfamily-controlled businesses. The research adds to the expanding corpus of literature. By revealing the moderating effect of family control—mediated by information disclosure—in the link between an outside director and board service engagement on corporate governance.

It is imperative to recognise specific constraints and potential directions for future investigation. The study's primary focus is on the business environment in Belgium and Luxembourg, and it is important to carefully assess if the findings may be applied in other situations. Prospective investigations may examine analogous dynamics within heterogeneous cultural and institutional contexts to evaluate the degree to which the noted correlations persist. Furthermore, the research offers a moment in time view of governance dynamics, and further investigation into the long-term development of these connections is still warranted. Gaining an understanding of how family control's moderating effects evolve over time and interact with shifting organisational circumstances could be very beneficial.

Conclusively, the research contributes to our comprehension of the intricate connections found in corporate governance frameworks. There is no one-size-fits-all relationship between outside directors, family control, information disclosure, and board service participation. It is crucial to acknowledge and manage these intricacies in order to promote efficient governance procedures that complement the distinctive features of every firm.

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