

The corporate governance of small and medium enterprises and its impact on development " Concepts and ppplications"

La gouvernance d'entreprise des petites et moyennes entreprises et son impact sur le développement "Concepts et applications"

Guettofi yacine ^{1*}

¹ l'école supérieure de commerce (Alger), e-mail : g.yacine16@gmail.com

Received: 20/11/2016

Accepted: 01/12/2016

Published: 31/12/2016

Abstract:

Corporate governance has an important policy agenda in developed market economies for more than a decade and it is gradually warming its way to the top of the policy agenda on the African continent.

The Asian crisis and the relative poor performance of the corporate sector in Sub-Saharan Africa have made corporate governance a catchphrase in the development debate (Berglof and von Thadden, 1999).

Developing countries, of which Algeria is no exception, are now increasingly embracing the concept of good corporate governance, because of its ability to impact positively on sustainable growth.

Good governance generates investor goodwill and confidence. Firms are now improving their corporate governance practices knowing it increases valuations and boosts the bottom line.

Corporate governance is seen as the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders. (Claessens et al. (2002) maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders.

*** Corresponding author**

Should all stakeholders in a firm be represented on the board of a firm for effective governance of the firm? Whether such reasoning is plausible for SME or not. it is also explored in this study.

The key words: Corporate governance - small and medium enterprises - economic growth of developing countries-

Jel Classification Codes: D79,G30

ملخص :

أخذت حوكمة المؤسسات في الوقت الحالي اهتماما بالغا "في العقدين الماضيين" في جميع دول العالم خصوصا تلك التي تتبع نظام اقتصاد السوق، وقد أخذت حيز كبير من الاهتمام في السياسات الاقتصادية في دول القارة الأفريقية التي تشهد دولها نموا اقتصاديا معتبرا عبر الزمن.

كما كان للأزمة الاقتصادية الآسيوية وكذا ضعف الأداء النسبي لقطاع الشركات في أفريقيا وبالأخص جنوب الصحراء الكبرى، الدور البارز في جعل حوكمة المؤسسات في صلب النقاش حول التنمية الاقتصادية (Berglof and von Thadden, 1999).

كما أن البلدان النامية، ومنها الجزائر ليست استثناء بحيث تهتم على نحو متزايد بمفهوم الحوكمة الجيدة للمؤسسات، وذلك لما لهذه الأخيرة من قوة التأثير إيجابيا على التنمية المستدامة.

إن الحوكمة والتي تعني "الحكم الرشيد" من أهدافها أنها تعمل على تقوية النوايا الحسنة والتي تعزز من ثقة المستثمر وكذا المؤسسات التي تسعى إلى تحسين ممارسات الحوكمة.

تعتبر حوكمة المؤسسات بأنها عملية ذات مبادئ خاصة تستخدم لتوجيه وإدارة الشؤون التجارية للمؤسسة نحو تعزيز أداء الأعمال والمساءلة مع الهدف النهائي المتمثل في تحقيق القيمة للمساهمين على المدى الطويل، بينما يأخذ في الاعتبار مصلحة أصحاب المصلحة الآخرين. (Claessens وآخرون 2002).

كما تعمل الحوكمة على الحفاظ على أن الأطر المؤسسية في أفضل حال وذلك من خلال زيادة فرص الحصول على التمويل، وانخفاض تكلفة رأس المال، وتحسين الأداء ومعاملة أفضل مع جميع أصحاب المصلحة.

وفي هذه الورقة البحثية أردنا دراسة موضوع الحوكمة في المؤسسات الصغيرة والمتوسطة لما لهذه الأخيرة من أهمية كبيرة في الدفع بعجلة التنمية الاقتصادية على أساس مستدام، وكذا تعزيز قدرة هذه المؤسسات على مسايرة التغيرات الاقتصادية سواء على المستوى المحلي أو الدولي.

الكلمات المفتاحية: حوكمة المؤسسات – المؤسسات الصغيرة والمتوسطة – التنمية الاقتصادية في الدول النامية

تصنيف D79,G30:JEL

1. INTRODUCTION

All enterprises in this period of time try to use the corporate governance of institutions by apply its principles (transparency, credibility, protect stakeholder's rights, protect manager's rights, the responsibility of board of directors, and audit roles...etc) for developing the performance and increasing the productive capacity and financial profitability;

In this paper , we have studied the role of corporate governance on the small and medium enterprises.

Axes of this paper are:

- 1- The framework of corporate governance (definitions and perspectives);
- 2- Small and medium enterprises (important, roles, and cases);
- 3- Role of application of corporate governance on small and medium enterprises;
- 4- Recommendations and conclusion.

2. The framework of corporate governance (definitions and perspectives) :

2.1 Corporate governance definition:

Corporate governance refers to the mechanisms, processes and relations by which corporations are controlled and directed Governance structures and principles identify the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and includes the rules and procedures for making

decisions in corporate affairs.

Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. Governance mechanisms include monitoring the actions, policies, practices, and decisions of corporations, their agents, and affected stakeholders. Corporate governance practices are affected by attempts to align the interests of stakeholders.

Interest in the corporate governance practices of modern corporations, particularly in relation to accountability, increased following the high-profile collapses of a number of large corporations during 2001–2002, most of which involved accounting fraud; and then again after the recent financial crisis in 2008

Corporate scandals of various forms have maintained public and political interest in the regulation of corporate governance. In the U.S., these include Enron and MCI Inc. (formerly WorldCom). Their demise led to the enactment of the Sarbanes-Oxley Act in 2002, a U.S. federal law intended to restore public confidence in corporate governance. Comparable failures in Australia (HIH, One.Tel) are associated with the eventual passage of the CLERP 9 reforms.

Similar corporate failures in other countries stimulated increased regulatory interest (e.g., Parmalat in Italy).

1-1- Principles of corporate governance:

Contemporary discussions of corporate governance tend to refer to principles raised in three documents released since 1990: The Cadbury Report (UK, 1992), the Principles of Corporate Governance (OECD, 1999, 2004 and 2015), the Sarbanes-Oxley Act of 2002 (US, 2002). The Cadbury and Organisation for Economic Co-operation and Development (OECD) reports present general principles around which businesses are expected to operate to assure proper governance. The Sarbanes-Oxley Act, informally

referred to as Sarbox or Sox, is an attempt by the federal government

in the United States to legislate several of the principles recommended in the Cadbury and OECD reports.

- **Rights and equitable treatment of shareholders:**

Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.

- **Interests of other stakeholders:**

Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.

- **Role and responsibilities of the board:**

The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment.

- **Integrity and ethical behavior:**

Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.

- **Disclosure and transparency:**

Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

1- Small and medium enterprises (important, roles, and cases);

2- Small and medium enterprises (important, roles, and cases):

Small and medium-sized enterprises (SMEs) are defined in the EU recommendation 2003/361.

The main factors determining whether an enterprise is an SME are:

1. **staff headcount** and;

Table N°1: Either **turnover** or **balance sheet total**.

Company category	Staff headcount	Tur nover	r	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

- The term SME does not lend itself to one universally acceptable formal definition. Ward (2005) says the definition depends on who is defining it and where it is being defined. Firms differ in their levels of capitalizations, sales and employment. Hence, definitions that employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to different results. (Storey, 1994). In a study carried by the ILO, more than 50 definitions were identifies in 75 different countries, with considerable ambiguity in the terminology used. The enormous variety of criteria applied includes size of workforce or capital, form of management or ownership, production techniques, volume of sales, client numbers, levels of energy consumption etc. (Potobsky, 1992; Quartey & Kayanula, 2000).

- CHARACTERISTICS OF SUCCESSFUL SMALL AND MEDIUM-SIZED MANUFACTURING ENTERPRISES

The committee interviewed executives of several successful SMEs in an attempt to identify common characteristics that are essential for success. The SMEs, which ranged in size from \$2 million to \$50 million in

annual sales and had 30 to 450 employees, were selected because they have viable businesses, strong customer bases, and positive out-year projections for sales and profits. Based on these interviews and the experience of the committee, successful SMEs have several characteristics in common;

Weston and Copeland (1998) hold the view that, definitions of size of enterprises suffer from

Evaluation of Customers:

Successful SMEs are good at selecting customers, to a considerable degree,

The interviewed SME executives had selected the customers with whom they do business and had turned away customers that treated them as adversaries. At first glance, this might seem like an extreme approach for SMEs with only a few customers, but the development of a diversified base of loyal, trusting customers can reduce business risk during hard economic times. The SME executives felt that careful evaluation and selection of customers was one of the most important criteria for success.

Reaction to Salient Events:

SMEs should identify which aspects of their business should be measured and determined meaningful metrics for measuring progress, and the use of information to improve performance. Collecting data is expensive, however, so SMEs should only collect and analyze data that will help to improve business operations.

Documentation of Business and Manufacturing Processes:

Documentation is a foundation for quality. The ability to repeat standard, well documented processes without deviations is crucial for long-term success.

Use of the Internet:

The Internet can be an inexpensive way to meet communications requirements. It also provides opportunities for education, new sales channels, and lower cost procurement.

Sharing of Information:

SMEs should develop the capability to provide accurate, robust data to supply chain partners. Supply chain integration/management software should be chosen carefully. Most of the software is much too complex,

expensive, and time-consuming for SMEs.

3- Role of application of corporate governance on small and medium enterprises:

Corporate governance structures can be seen as frameworks to help organisations achieve long-term success for their stakeholders.

The Organization for Economic Cooperation and Development (OECD) describes corporate governance as follows: ‘Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring’ (OECD 2004).

Given that all companies want to attain their objectives, corporate governance is relevant to organizations of all sizes. Nonetheless, the aims and nature of the corporate governance framework applied are likely to vary from one company to another.

Corporate governance in large businesses is associated with the agent-principal issue: managers are agents for the shareholders (the principals and owners). Corporate governance involves trying to establish a framework, systems and controls that encourage management to act in the best interests of the shareholders. It is also increasingly seen as needing to take account of the interests of other stakeholders, such as employees and suppliers, and wider societal issues such as appropriate stewardship of environmental assets.

In family-owned businesses and SMEs in general, the agent-principal issue is less likely to arise, or less likely to be so significant. Where the owners are also the managers, management and ownership interests are aligned, but these interests are not necessarily those of other stakeholders. For instance, where there are family shareholders who are not actively involved in running the business, some mechanisms may be

required to protect their interests.

- General Challenges to Introducing Corporate Governance in SMEs:

There are a number of general challenges to encouraging improved corporate governance among SMEs and family-owned businesses:

- Difficulties in interpreting an expression of need
- Lack of awareness of need
- Lack of standardisation
- Problems with understanding the changes needed
- cost concerns.

Conclusion:

It has long been considered corporate governance mechanism just especially for the large institutional, but in recent years have been adopted as well as in small and medium-sized enterprises, and it had many benefits in strengthening the capacity of small and medium-sized enterprises and to make it competitive and to achieve a higher growth rates, as well as the achievement of financial profitability and economic efficiency to help these institutions to remain and continue;

Algeria is also seeking in order to increase the number of small and medium-sized enterprises than half a million enterprises activate it now to a million and a half enterprises prospects in years 2025 and 2030, and through this has to be to strength en the capacity of these institutions to benefit from the principles of corporate governance, Which is a need that should be met at the present time.

Recommendations:

For the way to develop the small and medium enterprises whether in Algeria or in other counties (Developed countries or developing), there are many and kind of procedures to do and many mechanism to apply, and from this procedures we have the corporate governance principles, and for good applying this principles on the small and medium enterprises we have recognized these principle points:

- The directors of this small and medium enterprises should de had the capacity (by learning and training) to apply the corporate governance in their enterprises, also they should be convinced in the benefits of corporate governance;
- The need for openness of small and medium enterprises on the successful experiences and try to take advantage from their experiences;
- The need to make a special guide about the governance of small and medium enterprises, which being a point of reference to these enterprises;
- The need for a Council brings together small and medium

enterprises, so as to exchange ideas and experiences;

- Use the new technologies for applying the corporate governance in SMEs;
- The need for greater state support (Financial, Material, human) to SMEs;
- The diversification of activities(Agriculture, Services, industry...ext) of SMEs.

Bibliography:

1 - Cadbury, Adrian, (1992) ;Report of the Committee on the Financial service Aspects of Corporate Governance, Gee, London, December, Sections 3.4.

2 - David Dzigba,(2015), Corporate Governance Practice among Small and Medium Scale Enterprises (SMEs) in Ghana; Impact on Access to Credit, Master's Thesis in Business Administration, MBA programme, School of Management, Ghana, February.

3 - Shailer, Greg. An Introduction to Corporate Governance in Australia, Pearson Education Australia, Sydney, 2004.

4 - Lee, Janet & Shailer,(2008) Greg. The Effect of Board-Related Reforms on Investors Confidence. Australian Accounting Review, 18(45

5 - The Corporate Governance of Iconic Executives, 87 Notre Dame Law Review 351 (2011), available at:<http://ssrn.com/abstract=2040922>.

6 - "OECD Principles of Corporate Governance, 2004". OECD.

7 - "Two top economists agree 2009 worst financial crisis since great depression; risks increase if right steps are not taken". Reuters. 27 February 2009. Retrieved 10 November 2015.

8 - European commission, growth, entrepreneurship and small and medium-sized enterprises (SMEs), http://ec.europa.eu/index_en.htm.

9 - Strategies for small manufacturers,(2000) the national academies press, USA.