

Governance In Small And Medium Size Enterprises

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Abstract: Corporate governance is one of the developed and adopted managerial approaches in all regional and international institutions and organizations. It aims to protect shareholders' rights and all stakeholders by guiding the businesses of managers towards maximizing shareholder value through aligning the objectives of the enterprise with those of its owners. Through this work, we have attempted to investigate the concept of governance at the SMEs level where ownership and management meet and the Agency's problem does not appear. Therefore, its managers' work is geared towards the objectives of its various stakeholders in accordance with the expanded concept of governance corresponding to the stakeholders' theory.

Keywords: corporate governance; SMEs, agency theory, stakeholder's theory.

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Introduction:

The concept of governance today occupies an important status in various scientific orientations, whether management science or legal science, and even in the preoccupations of political decision-makers. This concept resulted from the 1930 negotiations and the Berle and Means Book, which touched upon the separation of ownership and control in the major American institutions by the end of 1970. They also addressed the evolution of the Agency's normative and positive theories. Governance gradually shifted to industrial factors in 1990 after financial crises in several East Asian and Latin American countries in 1997, including Enron's 2001 electricity and natural gas marketing crisis in the United States of America and the WorldCom's 2002 American telecommunications company. Governance revealed managers' administrative and financial manipulations that require external control to ensure transparency of accounting data and similar information provided by them to other stakeholders to resolve agency problems and ensure the continuity of the enterprise by maximizing its value away from personal interests. Corporate governance has become an important topic in management aimed at explaining the organizational performance of major institutions through management systems that frame managers' decisions. However, this does not exclude small enterprises from benefiting from governance advantages because, in principle, governance in small and medium-sized enterprises cannot be talked about because they meet ownership and control, but with the option of growth that benefits the latter, the likelihood of being applied in them is present. Thus, we formulated the following research problem:

What is the feasibility of applying governance in SME?

Research Objectives:

As the concept of corporate governance has become a new management approach for all regional and international institutions and organizations that offers more effective control capabilities focused on responding to the interests of the various parties that the institution affects and is influenced by them, we have decided through this research to address:

- Learn about Governance as a modern approach in the small enterprise.
- Investigate the appropriate governance model for SMEs as they have a centralized ownership structure at the time of its establishment that may become a fragmented ownership structure during its lifecycle.

Research importance:

The importance of research arises from the importance of governance rules in protecting the rights of different stakeholders in accordance with the stakeholders' theory because it is the basis on which governance can be applied in SMEs as long as they meet ownership and governance and do not face the problem of the agency.

I. Concept of governance:

Given the growing interest in the concept of governance, most studies have tended to study and analyze it, as well as develop rules that enable it to be embodied as a management practice for institutions, especially those that meet the requirement of separating ownership from management.

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□.1. Its definition:

IFC defined corporate governance as¹: “The system through which companies are managed and their business is controlled”.

According to Charreau², governance covers the totality of regulatory mechanisms that affect the limitation of the Director's powers and decisions. It is who governs that determines the area of discretion and focuses on the role of partners and administrators in defining the framework and regulations.

Governance is therefore the whole of principles aimed at unifying interests and balancing the various parties belonging to the institution in order to promote the pursuit of objectives that are appropriate to the interest of the enterprise and shareholders through management. This is done by developing a tight system that makes the process of making mistakes difficult by spreading a culture of discipline, ethics, and creativity within the firm and rationalizing the practices of managers and the board of directors.

As for corporate governance, it is the relationship that brings together several affiliates and participants in the enterprise and determines the rational direction of its performance with the knowledge of both the parties and the administration.

According to the Organization for Economic Co-operation and Development (OECD), corporate governance³ is: “The system whereby business organizations are directed and controlled based on the distribution of duties and responsibilities between different participants in the joint-stock company such as the board of directors and other stakeholders, based on the necessary rules and provisions to rationalize administrative decisions.”

Parkinson defined it as “the administrative, supervisory, and coordinating procedure adopted that reflects the credibility of the company's management regarding its care for the interests of the partners⁴”.

□.2. The roots of the concept of governance:

Addressing the concept of governance necessarily calls for talking about the concept of agency and the theory of agency that promotes separation of ownership and management, taking into account the resulting agency costs and opportunistic behavior of a manager who does not have part of the capital due to his differing interest from the shareholders' personal interests, thereby causing them to incur additional costs associated with the non-monetary benefits offered to the manager⁵. This has led Berle & Means to orient their studies to large institutions where conflicts of interest between the manager and the owners manifest due to the separation of ownership from the control exercised by the board of directors and shareholders. They focused on guiding the principles and rules of governance to larger than small enterprises. However, this initiative is not conclusive in the area of agency theory because its perspective extended to the Jensen & Meckling initiative, which aimed to develop a theory of enterprise ownership structure after the developments observed in property rights theory, agency

¹Riyabota Vladislava, Volynets Alexey, Kravatsky Axel, Carrington Helen, **Governance For SME Sustainability And Growth**, Report Of Ifc Corporate Governance Knowledge Publication, P04.

² Pigé B, **La Gouvernance D'entreprise Dans Les PME : L'adaptation Du Profil Du Dirigeant Aux Besoins De L'entreprise**, Revue Internationale P.M.E, 2002, Pages 119-142, P122.

³Yindenaba Abor Joshua, Komla Delali Adjasi Charles, **Corporate Governance And The Small And Medium Enterprises Sector: Theory And Implications**, April, 2007, P03.

⁴ Parkinson J.E, **Corporate Power And Responsibility: Issues In The Theory Of Company Law**, Oxford University Press, New York, 2002, P93.

⁵ Charlier P, Lambert G, **Analyse Multi Variable De La Performance Des PME Familiales. Une Lecture Par La Théorie Positive De L'agence**, Revue Management Internationale, 2009, Pages 67-79, P73.

theory, and finance theory, as cooperation between the manager and the owners produces good results. According to these researchers, the problem associated with the ownership structure is due to how capital is distributed rather than the Agency's problems. Theorization in governance did not stop at the Jensen & Meckling Initiative but extended to a broader concept with Freeman's stakeholder theory, which focused on all actors in the enterprise that influence or are influenced by its decisions and which must be taken into account when responding to all of these parties. This concept of governance corresponds to the concept of homogeneity in SMEs.

□.3. Governance mechanisms:

The concept of corporate governance serves to establish effective control mechanisms to deal with the Agency's problems arising between management and shareholders and between the minority shareholders and the controlling majority to preserve the interests of its various actors. The latter varies into external and internal mechanisms⁶.

– External mechanisms

It is guaranteed by the managers' market, which is subject to the market's supply and demand laws. Managers are replaced simply because they have not done enough to achieve profitability and therefore the managers' market is seen as a constraint on the poor management of managers. The financial market is another mechanism that offers managers the possibility of waiving their shares or reducing their ownership according to the value of the enterprise, depending on the managers who cause their financial performance compensation to decline.

– Internal mechanisms

It includes the Board of Directors, directors' compensation, management ownership, and financial debt. Charreaux believes that the Board of Directors is the mechanism that monitors managers by representing shareholders' rights in their decision-making role. The Board of Directors has two basic means to implement control on managers. The first is the selection of their compensation method and the second is the possibility of their withdrawal. The Board has to do with the compensation systems applicable to managers because it monitors the changing portion of the remuneration that relates to the level of performance achieved, making managers move towards shareholder goals. The wages of the managers also increase with the increasing size of the board and having more internal administrators. The lack of managers' ownership over the capital makes them behave opportunistically, which increases the importance of the Board's autonomy to control the work of managers. This is confirmed by the correlation between the Board's independence and the control of managers through compensation systems. As for financial indebtedness, it is a means of reducing the Agency's costs between managers and shareholders and converting it into a contractual relationship between creditors and shareholders.⁷

⁶ André Paul, Khemakhem Hanane, Sakka Wafa, **Interdépendance Des Mécanismes De Gouvernance : Etude Empirique Dans Le Contexte Canadien**, Tunisie, Mai 2006, P04.

⁷ Dumontier Pascal, Chtourou Sonda, Ayedi Soumaya, **La Qualité De L'audit Externe Et Les Mécanismes De Gouvernance Des Entreprises : Une Etude Empirique Menée Dans Le Contexte Tunisien**, Mai 2006, P08.

□.4. Governance Rules

The governance rules aim to reduce the inconsistencies of information between the various parties in the institution in response to the effective dimension of the stakeholders' theory. This problem is reflected in large listed institutions where there is a clear separation between ownership and management, while in small and micro-enterprises, the ownership and management of the manager meet, who tends to achieve his personal goals, which affects the management of the institution and leads most managers to avoid external financing in order to preserve the independence of the decision. This meeting between ownership and management gives a special form to the concept of governance called contractual or family governance and therefore the governance rules that respond to the agency's problem in the large enterprise are different from those that respond to ensuring the sustainability of the small enterprise. Researchers distinguish between several types of governance structures, the most important of which are⁸:

– Managerial governance

It is characterized by the separation of ownership and control away from management risks, embodied in the large institutions listed on the stock exchange. The authority of its managers emerges from a set of internal and external control rules. In this form, financial markets impose on managers a trend towards maximizing profits where relations with stakeholders are complex and the manager is subject to shareholder control through the board of directors, which makes it difficult to justify implicit contracts.

– Separation of ownership and control

It also appears in the governance of alliances, but the managers are not subject to the control of financial markets because it is linked to the company within the framework of the financial partnership, which reduces the pressure to maximize profits and allows the development of these relationships in the long term based on the principle of trust.

– Family governance

It is distinguished by the combination of authority and ownership. According to Carney, it is characterized by moving away from the wasteful use of resources because the institution's strategic decisions employ the financial resources of the owner or family, which leads its managers to be cautious in order to reduce the likelihood of opportunism. It is also characterized by the organizational authority resulting from the manager's personality due to the combination of capital and the managerial authority of the manager or the family, which allows him to face internal and external constraints, same as the manager of a large enterprise. Finally, the unilateralism that arises from the manager when the enterprise becomes an extension of his personality that consist of some market shortcomings as an alternative to the market that allows the institution to pursue his objectives that differ from the non-owner external manager, making him freer to exercise his authority, his choices, and the regulation of contractual relations. It is the distinctive pattern of most SMEs. Most researchers consider these three characteristics to be the main source of competitive excellence and achieving higher levels of performance. However, does this mean that SMEs' governance structure excludes them from corporate governance rules?

In both the structure of governance and alliance governance, institutions are managed and controlled in accordance with six basic rules set by the Organization for Economic Cooperation and Development (OECD) in 2004⁹:

⁸CharlierP, Lambert G, **Ibid** P168.

⁹YindenabaAborJoshua ,KomlaDelaliAdjasi Charles, **Ibid**, P17.

- Ensuring that there is an effective framework for corporate governance that enhances market transparency and efficiency in line with the provisions of the law and determines the distribution of responsibilities between the various supervisory, regulatory and executive authorities in their fair and objective implementation of the laws.
- Ensuring the rights of shareholders of all walks of life: majority shareholders and minority shareholders, namely: the right of ownership, the right to transfer and transfer ownership, the right to obtain information about the institution and the right to vote on the Board of Directors.
- Equal treatment of shareholders: fair treatment of shareholders belonging to the same category.
- The role of stakeholders in recognizing them as stipulated by law and encouraging cooperation between the institution and the stakeholders it affects and influences to ensure the sustainability of projects sound financially on the one hand and create wealth and jobs on the other.
- Disclosure and transparency by accurate and timely disclosure of information related to the financial and operational results of the organization, the objectives and directions of the institution, the levels of performance achieved and the methods of exercising authority.
- The responsibilities of the Board of Directors, where companies are served to review and guide the strategy of the institution through effective control of the implementation of business plans by the management of the institution, the determination of salaries and financial incentives granted to executives in addition to the possibility of appointing non-executive members to ensure the independent evaluation of this oversight process on the one hand in light of the possibility of accountability to the Board of Directors by the institution and shareholders on the other.

II. Concept of SME

Labels vary from small enterprises to small businesses, family, and home enterprises.

□.1. Definition ofSME

Definitions of SME vary according to the criteria adopted for their classification. Some classified them according to the number of workers into micro-enterprises that employ between 1-9 workers, small enterprises that employ between 10-49 workers, and medium enterprises that employ between 50 and 250 workers¹⁰. Others classified them according to the growth criterion based on their life cycle logic, including birth, growth, and then death according to stages of development as pointed out by Winter & Nelson: beginning, follow-up, success, and failure. Growth is reflected by management structures from simple to complex, i.e. from small to large enterprises, as well as the degree of managerial independence by separating ownership from management. However, this dimension is not always taken into account because not all small enterprises develop after their establishment. Curran & Worth have demonstrated that small enterprises do not always aim for growth because the latter depends on the sector of activity and markets and therefore remains accompanied by professionalism. The rest classified SMEs based on the form of ownership, which, in turn, determines the decision-responsibility, categorizing it as multi-ownership where ownership belongs to a partnership between a number of people who assign its management to a manager with no ownership, a family enterprise owned by the same group, i.e. the family, and finally the sole property belonging to a sole person who is its manager and owner¹¹. Thus, SMEs are:

¹⁰ Torres Olivier, **TheSME Concept Of Pierre-Andre Julien: An Analysis In Terms Of Proximity**, Journal Of Small Business, 2004, P02.

¹¹Lecointre Gilles, Roubaud Jean François, **Le Grand Livre De L'économie PME**, Gualino L'extenso Editions, Paris 2009, P26.

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- The environment in which human relations are explicit, clear, and more positive and the network of dealings is more diverse and subject to value creation¹².
- Business owned and administered by an independent person who is responsible for financing and decisions relating thereto. According to Hirigoyen, it is defined by three factors: responsibility, ownership, and the sole goal of achieving good profitability¹³.
- According to the Algerian legislator, SMEs are ¹⁴ “Enterprises employing between 1 and 250 workers, and their turnover is under 4 billion DZD, or their total annual yield is under 1 billion DZD”.

□.2. Characteristics of SME

Small and medium enterprises (SMEs) form what is known as the service economy because they are simply characterized by their structures, which allow them to communicate directly with all stakeholders and enable them to respond effectively. The small enterprise is distinct from its large counterpart¹⁵:

- Centralization that results from the simple structure in which the owner of the enterprise is at the center of all responsibilities. He is the sole responsible for the decision-making and planning for the execution of the business under the combination of management and ownership.
- Informality that is associated with small size, the number of workers, and a high level of flexibility since one person can do a number of jobs, i.e. the absence of specialization, in addition to its low level of strategic management practice where it relies solely on the management experience of its managers.
- Locality, where the majorities of small enterprises' functions are concentrated in one place except distribution, and can also expand geographically at growth because they are flexible.
- Dependency, sometimes small enterprises take the form of branches of large enterprises specialized in providing the raw material to large enterprises or selling agencies that market those large enterprises' products.
- Using smaller production methods because SMEs are simple both in their organization and their operation, which does not require high-tech means commensurate with their limited capital.
- Individual ownership that belongs to a single person or a number of partners which are usually family members so that it is often poorly funded.
- High contracting capacity resulting from controlled relationships between different functional levels that allows prediction of developments specific to demand needs.
- Sensitivity to environmental change and flexibility in responding to it.

¹² Fournier Christian, **Techniques De Gestion De La Pme, Approche Pratique**, Les Editions D'organisation, Paris, 1992, P27.

¹³ Wtterwughe Robert, **La Pme : Une Entreprise Humaine**, De Boeck Universit , Bruxelles, 1998, P21.

¹⁴ Loi N  17-02 Du 11 RabieEthani 1438 Correspondant Au 10 Janvier 2017 Portant La Loi D'orientation Sur Le D veloppement De La Petite Et Moyenne Entreprise (PME), Journal Officiel De La R publique Alg rienne, Alg rie, N 02, 11 Janvier 2017, P05.

¹⁵ DwaikattNizar, MadboulyA.Hussain, ArabyQueiri, Abdelbaset Sameer, QubbajIhab, **Corporate Governance In The Small And Medium Enterprises (Smes) As Performance Enhancer**, International Business Information Management Conference, Seville, Spain, 2020, P2151.

□.3. Difficulties facing SME

Despite the State's ongoing efforts to build an industrial base in accordance with its new policies to promote and develop the industrial fabric of small and medium-sized enterprises, it continues to face several constraints and difficulties impeding its development, the most important of which are¹⁶:

- The difficulty of obtaining the necessary funding because SMEs are often dependent on individual funds and do not have sufficient guarantees for borrowing.
- Technical shortcomings due to the weakness of the technology used that requires large investments.
- Weak competency expertise in several areas that are necessary for the successful functioning of the enterprise where technical efficiency can ensure excellence.
- The composition of customers, which many SMEs are supported by a more adequate customer base, but this takes a period of time.
- Basic research where newly established institutions do not have the resources to prepare in-depth research, so they resort to informal sources or do simple research that makes their results less accurate.
- Preservation and protection of ideas that can be acquired from powerful competitors.
- Beginning of activity and weak orientation toward borrowing: Small enterprises' budgets differ from large ones owing to short-term intensity so that the lower part of the budget takes the large part, as opposed to enterprises whose current assets reflect the corresponding portion of short-term debt. As for long-term debt, there was a kind of reservation by banks towards small enterprises, but that was also the case of their managers' behaviors because they refused long-term indebtedness. This financial privacy characterizes the small enterprise with poor liquidity which makes the treasury face funding difficulties. Beginners usually face the problem of financing where new activity is often a risk for an investor because it does not have sufficient guarantees. In addition, flows of the first years of activity are usually negative.

These complexities, which have made the SME sector fragile, do not translate the goals and objectives entrusted to it. This has put forward the alternative of qualifying the latter so that it can achieve the desired economic development.

□.4. Growth options for SMEs:

The difficulties facing SMEs lead them to propose three types of alternatives in order to achieve the growth goal¹⁷:

- **Developing the managerial competencies of managers**

By adopting formation programs that contribute to avoiding the difficulties that managers may face during the life cycle of small enterprises as well as through support and accompaniment programs. Many studies have demonstrated the success and growth of small enterprises that have

¹⁶GamageNaradda, Kumara And Ekanayake, SisiraEMS And AberyrathneGAKNJ And PrasannaRPIR And JayasundaraJMSB And Rajapakshe, **Global Challenges And Survival Strategies Of The Smes In The Era Of Economic Globalization**, A Systematic Review, December 20th, 2019, P06.

¹⁷Helfer Jean-Pierre, Kalika Michel, Orsono Jaques, **Management Stratégie Et Organisation**, Vuibert Editor, Paris, 2002, P425.

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benefited more from accompaniment programs at the time of establishment than those that have not. This also calls for intensified research on small enterprises because the sector is still not fully known and it is not possible to apply the measures adopted in the large enterprise to them because the difference is not only related to size but even in nature.

– The importance of fiscal adjustment

As working capital proceeds according to growth levels, where the budget model does not become a requirement for continuity, as well as the adoption of proposals made by banks and managed by public authorities that strive to balance between the need for working capital and working capital generated by deposits. Public authorities do not hesitate to support the creation of enterprises with risk capital and provide other non-capital funding alternatives before managers, which managers still do not accept.

– Possible trends in the globalization of the economy

Small enterprises can be arranged into two groups: institutions organizing the outsourcing strategy by large enterprises and institutions seeking to achieve the objective of internationalization by focusing on resources and competencies according to the economic approach, drawing on the approach of internationalization by segmenting the market horizontally according to the trend of the manager¹⁸, or the approach of environmental networks to achieving internationalization directly by adopting direct export through trade relations with other countries and then opening branches. The first has greater opportunities for continuity and growth than the second because partnership makes it a factor of globalization. The second is excluded, remains a victim of its effects, and finds itself in the option of forming its own network of activities. These strategic trends enable it to do what it cannot do individually. Whatever the developments resulting from globalization, the special needs are responded to and new ones emerge. Responding to them by small enterprises with local capacities enables them to sustain because being subject to strategies of participation in globalization reduces the small enterprise's structural constraints, but this requires some entrepreneurial characteristics and competencies¹⁹. However, the small enterprise manager usually prefers internal growth over external according to his positive entrepreneurial vision resulting from trust in the near future because the small enterprise is competitively threatened by the large enterprise in the market, and thus seeks in its early stages to remain in its field of activity by maintaining its position. When small enterprises think about growth, they tend to diversify the business or their message because combining the two is considered comprehensive and riskier than it is difficult to achieve in the stages of development until after achieving successes in each area separately, beginning with the horizontal business growth, then the vertical that is concerned with establishing branches, and then the comprehensive. The SME's growth option makes it more qualified to move towards the application of governance rules²⁰ because the enterprise at the growth stage is forced to open its capital to external partners, structure roles, and organize the business of management bodies.

III. Governance Of SMEs:

The application of governance rules benefits institutions in all its forms by ensuring effective communication between them and other stakeholders through protecting their rights via the principles

¹⁸GamageNaradda, Kumara And EkanayakeSisira, EMS And AberyrathneGAKNJ And PrasannaRPIR And JayasundaraJMSB And Rajapakshe, *Ibid*, P21.

¹⁹Mathiolon Guy, *Les Très Petites Entreprises : Un Management De Proximité*, Lavoisier, Paris, 2008, P36.

²⁰ CadieuxL, *La Succession Dans Les PME Familiales : Proposition D'un Modèle De Réussite Du Processus De Désengagement Du Prédécesseur*, Revue Internationale P.M.E, 2005, Pages 31-50, P 36.

of transparency and accountability, thereby strengthening the institution's economic status and enhancing its social responsibility.

□.1. **Difference between SME and large enterprise:**

Most studies have addressed the concept of governance in large enterprises or those listed on the stock exchange, but only some studies have dealt with the concept of governance in small enterprises. Applying governance principles in a small enterprise requires a set of characteristics in the ownership structure, the manager, and the shareholders' objectives. This is because SME is characterized by the concentration of ownership and management among the same people, as well as considerable compatibility between the manager and his institution to avoid agency costs, which is a source of inefficiency due to the absence of external control capabilities. Studies on the applicability of governance rules in small enterprises indicate the need to accompany future goals such as growth or capital opening. These studies, which did not address all previous governance factors, focused solely on the role of the Board of Directors²¹. If a small enterprise is similar to a large one in some characteristics, this allows some of the principles of governance to be applied to a small enterprise. The differences between them are mainly²²:

- **Nature of ownership structure:** It refers to how capital is distributed between shareholders and managers because the small enterprise is not only different in size but also in ownership structure. A small enterprise often faces the problem of allowing shareholders to obtain minimum liquidity in order to acquire or concede shares than the problem of raising capital, in addition to the lack of financial market control because the shareholder controls in accordance with his experience or according to the documentation that he can provide.
- **The nature of the director's administrative functions according to his strengths:** Belonging to the family community of shareholders or managers when the director manages an institution created by a member of his family or was managed by a relative.
 - Belonging to a network of relationships related to a particular organization or a formation or dialogue body that contributes to the manager's access to this position on the one hand and affects the organization's strategy and performance on the other.
 - External expertise: Shareholders prefer an external manager when they expect that he provides the institution with expertise in terms of both; his strategic outlook and well-known management competencies.
 - The possibility of external control: by acquiring most or a larger share of the institution's capital and exceeding a large number of successors, as well as handing over the institution to an external manager who can provide capital that is not owned by the frameworks of the institution in the first place. Handling over the institution to an external manager solves the problems associated with succeeding an autocratic manager who is unaware and not ready for succession.
 - Establishment of the institution: this form of manager's functions calls for special competencies and a high level of risk as well as other factors such as family environment or professional experience that explain the entrepreneurial orientation.

²¹CerradaK, JanssenF, **De L'applicabilité, Des Spécificités Et De L'utilité D'un Code De Gouvernance D'entreprise Pour Les Pme Et Les TPE : Le Cas De La Belgique**, Revue Internationale P.M.E, 2006, Pages 163-193, P 174.

²² PigéB, **La Gouvernance D'entreprise Dans Les PME : L'adaptation Du Profil Du Dirigeant Aux Besoins De L'entreprise**, Revue Internationale P.M.E, 2002, Pages 119-142, P123.

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The form of administrative functions depends on the initial composition or professional experience of the manager and therefore not all methods of achieving management are available and some may be distinct.

- **Manager's human capital:** represents an important role in the structure of enterprises' governance because those with significant and acceptable human capital do not face many difficulties in obtaining employment in the labor market, nor are their incentives different from those of traditional, including compensation and the nature of their tasks. Whereas, a person with weak human capital is strongly associated with his institution as a result of the absence of alternative solutions at the labor market level, so he is looking to strengthen his position within the institution and is reluctant to open its capital to financial investors or other institutions.

□.2. SMEs and traditional governance rules:

Most governance literature seeks to minimize the information asymmetry between the enterprise's parties, representing the small enterprise in the board that exercises two essential roles. It is a decision-making center and a control party on the daily functioning of the institution. In order to ensure the latter two tasks, a group of independent executive parties with no family relationship with the institution must be appointed so that they do not put pressure on the board to protect the rights of minority shareholders' interests and the rights of the institution as a whole. An age limit must be set for membership in the board and the duration of membership must be determined as well, in addition to the establishment of appointment committees emanating from the board, as well as compensation committees and control committees consisting of independent members in order to ensure efficiency in decision-making. The position of Chairman of the Board must also be separated from that of the administrative representative charged with the daily conduct of relations between the Board and the management in order to avoid overlapping roles and ensure the impartiality of the Board's decisions. Concerning the management, the roles of the organizational members are to oversee the implementation entrusted to them by an administrative committee that does not exceed the limits entrusted to the members of the Board. For the General Assembly, transparency and quality of the information provided by the Board are important so that shareholders can exercise their roles and assess the work of the Board, which its members meet periodically on the basis of a specific agenda and have the necessary and sufficient information²³. The separation process between management and the board in small enterprises is weak, where the board remains only a decision body to discuss decisions taken mostly by the owner-manager. Since it is not a support body, the decision functions assigned to it are between the owners, the manager, and the board. Concerning the control role, the board exercises the role of an adviser in providing the manager with its expertise. This assistance is important in achieving entrepreneurial activities that require the development of a business network and consistent relationships with stakeholders. The Board is also useful in formulating a short-term strategy. Applied studies have shown that the board in small enterprises plays an important role in their growth. This role is to involve its members in the formulation of strategy and effective control over management activities where compensation systems are affiliated with the enterprise's results. In 1997, Martin Petty, after studying a sample of fast-growing enterprises, concluded that the Board of Directors exercises its control role realistically through day-to-day management. These boards are composed of independent executives who draw the manager's attention to problems beyond the daily functioning of the institution. Other studies have focused on the number of external administrators who provide the enterprise with resources that it does not possess by presenting information on opportunities it can benefit from through opening up to its external environment.

□.3. Application of governance rules to SME

In institutions where the agency's relationship resulting from the separation of power from ownership is lacking or weakened, mechanics to protect minority shareholders are needed to be brief

²³CerradaK; Janssen F, **Ibid**, P174.

because governance principles are aimed at reducing the likelihood of opportunistic behavior by the manager. Thus, it cannot be avoided in institutions where the manager's interests meet with the owners' interests, albeit in part. For enterprises where ownership structures are fragmented and subject to external shareholder control, governance principles are often applied and therefore they are usually applied in large listed enterprises. This leads us to conclude the weak importance of governance in small enterprises because²⁴:

- The rule of protection of shareholders' rights is limited.
- Impose the stability and inclusiveness of SMEs' characteristics.

Based on imposing stable characteristics of SMEs, governance cannot be applied. However, SMEs can grow when we talk about the possibility of opening up capital to the partnership, which shows the agency's problems and leads to looking for a new director who agrees with the new reality of the institution and therefore realizes the possibility of applying governance in fast-growing small enterprises because the need for governance depends on the concept and cycle of the enterprise's life. As for second or third-generation enterprises that have been successively inherited, the requirement to separate ownership from management may be met when none of the heirs occupies the management function. As for imposing inclusiveness of the characteristics of SMEs, according to Torres²⁵, the size of the enterprise is not a guarantee to the form of its management following the classic model of the SME. Some SMEs' management systems may be similar to large enterprises. In addition, SMEs' dependence on different networks focuses on the concept of governance resulting from stakeholder theory stating that governance principles are widely applicable to SMEs. Each institution's activity in an environment, which affects and responds to this effect, tends to expand the concept of governance to be applied to SMEs.

□.4. Relationship between enterprise size and corresponding governance model:

There is a significant relationship between the governance model and the size of the enterprise because each variable, the extent to which the Director-General controls his administrative functions and his free training, allows for clarifying the dispersion in the turnover, as the founders and buyers run smaller enterprises and then followed by heirs, directors appointed from outside, and those promoted within the institution. In small enterprises, the success factor is their managers' technical knowledge, i.e. experience in the business job, but when enterprises develop into a certain size, organizational competencies are an important factor for success. Therefore, the governance structure is a dependent variable on the growth stages of institutions that need organizational competencies. However, this is not explained by differences in the level of performance of institutions as a result of their different governance structures, but it is the differences in control over the manager's functions that affect governance structures and the resulting control shifts. A manager with free formation prefers internal financing and hence internal self-control while a manager with high formation and who is employed from the labor market examines external financing alternatives and thus fragmented ownership structures and external control²⁶. Here there are differences in managers' goals. The freetraining manager with low opportunities to be employed in other institutions tends to reducing risk levels, focusing more on control function, and preferring internal financing. He favors internal growth over global growth because freely formed founding managers are less risk-oriented, which causes their employment potential to be weakened in the labor market if their institutions collapse. Preferring internal financing limits their resources to open up to the outside world. Thus, human capital has an important role to play in enterprises' governance structure because those with significant and acceptable human capital do not face many difficulties in obtaining a job in the labor market, nor are their incentives different from those of traditional, namely compensation and the nature of their tasks.

²⁴ Gomez Pierre-Yves Jalons ,**Pour Une Histoire Des Théories Du Gouvernement Des Entreprises**, Revue Finance Contrôle Stratégie, 2003, Pages 183-208, P188.

²⁵Torres Olivier, **Ibid**, P18.

²⁶Pigé B, **Ibid**, P137.

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Those with weak human capital are strongly associated with their enterprise as a result of the absence of alternative solutions at the labor market level and are therefore looking to strengthen their position within the enterprise and hesitate to open their capital to financial investors or other institutions. The second factor for success in small enterprises is linked to the enterprise's growth and development because the enterprise that grows needs new commercial and financial resources, as the manager is at the center of responding to these needs. The initial formation and professional experience are factors that allow the assessment of the manager's overall competencies. It can be said that managers who follow a high initial formation have knowledge that enables them to adapt the institution's organization to markets and the environment. In addition, the professional experience gained ensures the development of the enterprise externally. Then the production function in industrial enterprises becomes a factor for success during the enterprise's creation and launch rather than the growth phase outside the domestic market that requires the experience of the commercial and financial function.

Conclusion:

According to Charreaux, governance in SME 1998 refers to the process of aligning stakeholders' objectives by moving away from prejudice to their interests, which is detrimental to value creation and the survival of the enterprise on the one hand, and the great caution that limits the initiatives of the manager on the other. Thus, the concept of governance that fits SMEs agrees with the stakeholders' theory of developing relationships with each stakeholder because the traditional concept of governance that emphasizes the protection of investors' rights does nothing to benefit a small non-listed enterprise. Thus, it can be argued that the rules of governance in SMEs are applied only in the stages of growth or change where tasks become more complex, work becomes more difficult, and the enterprise's networks of relationships expand multilaterally, requiring a change in attitudes by entrusting or delegating management to a more experienced one out of the family. The role of the Board is then activated by expanding its composition and powers to regulate decision-making by enshrining the principles of transparency and objectivity. The small enterprise then takes advantage of governance principles by improving its feasibility internally and social responsibility externally.