

Assessing the Role of Stakeholders in the Implementation of SMEs Governance Principles in France

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Abstract

There is no single model of corporate governance. The concept itself refers to the set of rules, principles of action, and behaviors that apply to a group. It is meant for a certain level of transparency towards stakeholders. While governance practices vary not only across countries, but also across firms and industrial sectors, yet one of the most remarkable differences is related to the rules of ownership and control of firms that exist across countries. Many small and medium enterprises (SMEs) also have poor dividend policies and unfavorable buy-out procedures for minority shareholders. In this kind of SMEs, managers are rarely subjected to external shareholders control, allowing them to pursue the accomplishment of personal goals through the company. Such policies allow a manager to maximize his or her utility under stress, thereby allowing the necessary time to achieve their personal and family aspirations and minimum income, rather than to maximize profit or to satisfy all its employees. The aim of this article is to illustrate the stakeholder involvement in companies with the SME dynamic of governance in France. Good corporate governance practices contribute to improve the reputation of SMEs. Companies that respect the rights of shareholders and creditors, and that ensure financial transparency and accountability, will be regarded as being ardent advocates of investors' interests.

Keywords: *stakeholders, corporate governance, principle of corporate governance, Small and Medium Enterprises.*

1-Introduction

Organizational dynamics, creativity, and a good social climate in an enterprise are strongly connected to the governance and the behavior of actors. Peter Drucker (1985), considered as the "Pope of management," strongly insists on the image and importance of the manager in business success. Management literature has mentioned the shareholder governance model, while at the same time the development of research in management sciences promoted in the 1990s works on SMEs and Entrepreneurship, paying particular attention to the role of managers in the strategy and organization of work and not only his personality or his social profile. The debate on corporate governance has become increasingly important in recent years. However, the theoretical reflection on the subject lives in deep mutations (Zingales 2000 Charreaux, 2001).

The ownership and control of firms remain one of the main differences in SMEs governance. Some enterprises are more sensitive to the problems related to the solitude of the officer or the protection of

minority shareholders. The questions of power and executive compensation, the audit, or control committees are of less importance when the manager is a major shareholder. How to improve and enhance the level of SMEs governance is undoubtedly one of the most popular topics and the focus of many capital markets. We can also see the wave of financial scandals that shows the fraudulent behavior of some leaders in different countries. This results in the implementation of SMEs governance principles that highlight the duality between power control and power management, as well as the distinct roles of shareholders and organization managers. To some other extent, it shows the need to monitor those who manage businesses.

In the process of corporate governance, the three main parties involved are namely the managers, the board of directors, and the shareholders. In reality, SMEs are embodied by the personality of its owner-manager who is often supported by partners, or rather minority shareholders. A revolution is sweeping through the worldwide economic sector. Many countries like France have put forward a series of measures to regulate the operation of enterprises in order to protect investors' legitimate rights and interests. These measures include requiring more stringent listing and disclosure rules, specifying the role and influence of managers, settling the proportions of members on the independent board of directors, and implementing mandatory training for directors. Corporate governance can be defined simply as any system by which an enterprise is directed and controlled. This definition leads one to consider not only the role of managers in business operations, but also all relationships between SMEs and their various stakeholders (i.e. all staff holding a "*legitimate claim*" on the company due to the existence of a trading relationship).

In this study, we will explore the existence and distinctiveness of a productive system of governance focusing on SMEs in France, and also on the mechanisms that help to build a healthy and efficient economy. A careful analysis of the roles and responsibilities of managers and other stakeholders (shareholders and members of the board of directors) has convinced us that SMEs encounter problems different from those of large corporate governance. Here we will briefly summarize the roles, responsibilities, rights, and duties of the managers, shareholders, and board of directors in the governance of SMEs and what these roles imply in the relations between these three groups in terms of actors, control, equity, power, classified information, and executive compensation. Through this, we will also see the limits and possible constraints on the principles of governance.

2 - Overview of the SMEs and the Concept of Corporate Governance

2.1 Characteristics of SMEs

A strategy for SME development is necessarily country-specific. Each country faces its own challenges, taking opportunities and establishing priorities according to its own reform. However, generally, we can define an SME by the following four criteria: its size, its transparency in bookkeeping, the relations between stakeholders, and its net investment. Previously classified as "*traditional*", "*informal*," and sometimes "*domestic*," SMEs used to be seen as companies needing to modernize in order to develop and grow. It is only with the challenge of Fordism in the 1970s as well as its subsequent economic crisis and political criticism that SMEs became a research issue. Their better economic health response to the crisis in the 1980s finally convinced people that a revision of previous models was necessary.

In this context, the 2003 European Commission describes "*the SME as a company with fewer than 250 employees and whose turnover does not exceed fifty thousand Euros because the small business threshold*"

is fifty people and ten thousand Euros, whereas the threshold for a micro enterprise is ten people and two thousand Euros, provided they are independent” (Ikbel kerkeni, 2008). However, the life and survival of the small sized business is closely related to the one who manages and assumes responsibility. However he sometimes appears as an “*ideal type*” of manager and often bears all qualities to perform the functions assigned to him.

The discriminating effects that SMEs have suffered are usually the result of market failure or shortcomings in government action. They are closely linked to the capacity of stakeholders. Any initiative in the sense of SME development must, by nature, be primarily focused on the difficulties faced by SMEs due to their size. It should also aspire to overcome institutional and organizational shortcomings in order to boost the competitiveness of SMEs.

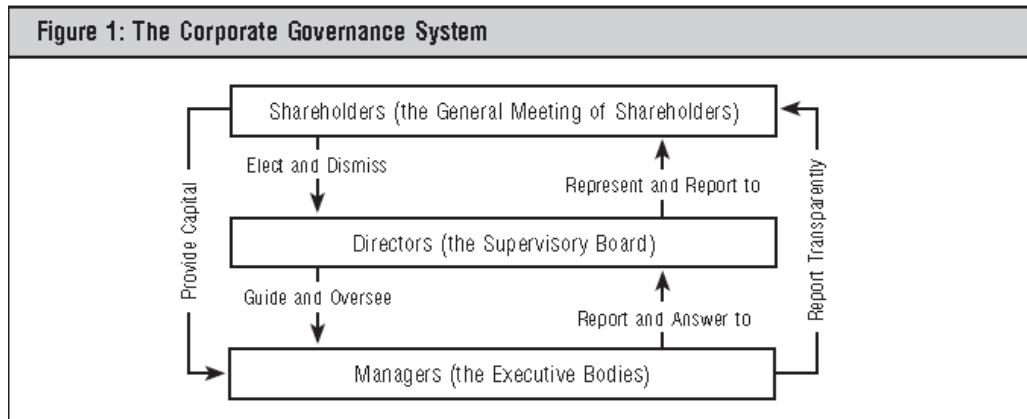
In typical corporate governance practices there is a big difference between large companies and SMEs, but in recent years the differences have become less clear-cut than before. Some feel that in SMEs the manager is usually also the main shareholder. To others, the manager has no financial power and is only employed by the shareholders. The size yet remains a key component of understanding the diversity of businesses. K.Mssegheem (2002) shows from a study on SMEs that “*those who demonstrate a strong entrepreneurial orientation are those that have a strong structuring of activities, a system of planning and control developed by a complex external information system, which is not the case for the majority of SMEs.*” Robert Wtterwulge (1998), in turn, defines SMEs as “*a company operating in the economic field whose existence is conditioned for better or for worse by the management contractor enjoying a decisional independence.*” This links the fate of the SMEs to its manager. With the right manager, the workplace can be a place of strong interpersonal relationships between the manager and his staff, which could even include family members. However, in the case of a conflict, however, the absence of a union or a human resources department could make it considerably harder for a manager to play an authoritarian role or to offer mediation in getting employees a suitable remedy.

The SME manager commands a considerable weight on his or her business, both on the content of activities and the strategic direction of the organization as well as on its internal functioning. J.M Doublet and R. Rochebrune (1996) assert that “*There is no more business without a manager as a director without a company, needless to point out how the company is characterized by its manager.*” With this in mind, dynamic governance is needed to support the growth of SME entrepreneurship, which is generally characterized by a personified structure or rather the role of manager.

2.2 Definitions of the Concept of Corporate Governance

Definitions of corporate governance vary around the world. Because of considerations relating to the size of the company and the relations between the actors involved in governance, it is a little complex to give a comprehensive and exclusive definition of corporate governance. R. Perez (2003) raises questions of the ambiguity between government and governance, finally putting emphasis on the rules of operation and control which have governed the life of companies geographically and historically. He highlights that the conception of governance involves “*institutions, relationships, rules, and behavior...that is to say more than the only structure that is the government.*” In a broader sense, the field of corporate governance goes beyond considering only relations between shareholders and managers, also covering issues related to the distribution of powers in the company and the study of systems that define the decision-making powers.

The basic corporate governance system and the relationships between the governing bodies are depicted in the figure below.



Source: IFC, March 2004

In some countries, the systems of corporate governance can be distinguished according to the degree of ownership and control and the identity of controlling shareholders. While some systems are characterized by widely dispersed ownership, others tend to be characterized by concentrated ownership or control. In outsider systems of corporate governance the basic conflict of interest is between strong managers and widely-dispersed weak shareholders, (Mariah Maher, 1999). However, these differences are also rooted in variations in countries' legal, regulatory, and institutional environments as well as in historical and cultural factors. Therefore, policies that promote the adoption of specific forms of governance should account for the product, factor in market contexts and other institutional factors within which they are being contemplated.

Reasonable governance of SMEs, therefore, supposes sufficient rules to ensure effective governance practices and fairness. It is in this sense that the theory of transaction costs developed, including "*gouvernement des entreprises*" translated into "*corporate governance*" or "Corporate Governance" defined as "*the set of operating rules and control governing in a given historical and geographical context, corporate life,*" (Pastre, 1994). However, corporate governance must not be confused with corporate management. Corporate governance focuses on a company's structure and processes to ensure fair, responsible, transparent, and predictable corporate behavior. Corporate management, on the other hand, focuses on the tools required to operate the business. Corporate governance is situated at a higher level of direction ensuring that the company is managed in the interest of its shareholders. One area of overlap is strategy, which is dealt with at the corporate management level and is also a key element in corporate governance.

Governance should enable public and private ownership of the device to interact and to cooperate. This regulatory mechanism must provide a collective dynamic that can remove natural barriers for cooperation. Effective governance would then improve the performance (Alberti, 2001; Mendez and Bardet, 2008; Carpinetti et al 2007; Gundolf et al 2007). Corporate governance practices of SMEs can be seen as a revival of the shareholder against power, based on a more active role of directors as the ultimate shareholder supervision. Management ensures that shareholders are valued and actively participate in meetings, and that the potential exercise of lawsuits is available as a remedy for violations of the rights of

shareholders. It focuses on projects such as those related to information security, convergence of information systems, securing network deployment, or any issues concerning the insurance sector.

2.3 Background and Institutionalization of Corporate Governance in France

The "corporate governance" is a strong current of opinion that was developed in England and the United States in response to a series of scandals. In this context characterized by the development of new technologies and financial globalization, the French system of corporate governance has evolved under the pressure of the growing presence of foreign institutional investors and the mass distribution of a speech defending the shareholder called *Creating Shareholder Value*, (Rubinstein, 2002; L' Helias, 1997; Jeffers, Oheix 2002; Plihon, 2003; Richard, Mielle, 2003). The evolution of governance in France has increased due to a number of events such as the waves of privatization from 1986 to 1987 and the series of financial disasters and court cases involving CEOs. Liberalization capital flows in Europe has led to an increased presence of American shareholders who have contributed to the emergence of the concept of "shareholder value." This concept is widespread in France when businesses that have shaken the banking and insurance sectors have shown that French law controls were as ineffective as they were heavy and penalizing. Corporate governance has become a standard of expectation from analysts and investors.

The new model, which has gradually developed since the mid-1980s, is not yet fully stabilized, but we can understand its origins, characteristics, and function as if we have a relatively clear idea of a previous configuration. A new configuration replaces the one that exists when its internal contradictions come to light and require major changes, otherwise he would see his efficiency irreversibly damaged, (Jean-Claude Daumas, 2005).

Corporate governance is not disconnected from the political and cultural contexts in which they are enshrined. Rules and laws which apply are also the result of the mentalities and intellectual development of our societies towards greater transparency, control of power, and democracy.

The French model of corporate governance is characterized by the strong power of the state in the economy. By the intervention of the state, the French specificity is characterized by the role the state has played in nation building, (Perez, 2003), this is completely misguided. In this context, the state has a function of "economic regulator," "which involves macroeconomic policies of industrial organization, monetary control, and general orientation in terms of evolution of the structures that control the situation." (Rosenvallon , 1990).

Across Europe, the idea of global regulation was the matrix of public intervention policies from 1945 to 1980 (Jean- Claude Daumas, 2005). More generally, there is a growing concern for French SMEs that adhere to the principles of "corporate governance" currently advocated by many institutional and individual shareholders associations. The same trend occurs in the major developed countries and even beyond; International institutions get involved.

The Organization for Economic Co-operation and Development (OECD) and the World Bank and International Monetary Fund (IMF) are in favor of "corporate governance" and develop their own codes of conduct for businesses. Reflection on corporate governance in France has developed through a number of reports published regularly by these institutions between 1995 and 2003. The reports draw their thoughts and recommendations from other reports, such as the Cadbury Report, published in 1992 in Great Britain and the OECD report, published in 1999.

The French model seems to be original in that it is the only one which offers the possibility of choosing between the unit formula (Board) and the dual structure (Supervisory Board and Management Board) for all companies. It is emphasized in Richard Bertrand, Dominique Meillet (2003) that the report relates only to public companies listed on the board, although some members of the committee had clearly expressed their desire not to include unlisted companies to which the issue of corporate governance is specific.

3 - Principles of Corporate Governance and Constraints of Application

3.1 Disclosure and Transparency

The constraint of transparency and continuous monitoring of strategic and financial choices limit the possibilities of opportunism. This also applies to the case of medium-sized enterprises in which the property function and the decision are often cumulative.

The system of government is more effective as it allows firms to maximize wealth creation for all stakeholders concerned. Therefore, the system of government should promote transparent and efficient markets, be consistent with the rule of law, and clearly articulate the division of responsibilities between the bodies in charge of the supervision, regulation, and the enforcement.

In 2004, France Telecom continued the Group-wide program to strengthen the effectiveness of internal control and improving operational performance. Thus, the Sarbanes Oxley Program, which aims to ensure the compliance of the group France Telecom Sarbanes Oxley Act, is twofold. On the one hand, it aims to spread the culture of internal control and good governance to ensure the effectiveness of the control environment in a number of areas identified (e.g. HR, ethics, SI, etc.). On the other hand, it aims to demonstrate the effectiveness of internal control over published accounts productions. To this end, each division or subsidiary implemented a management structure that works closely with the central structure at Group level. Shareholders can fight against behavior that is harmful to them, imposing the implementation of control procedures (audit, budget control, and others) or incentives (for example, a compensation system). Work done in 2004 led to the complete documentation of control activities from a common perspective. The control of the environment and the efficiency of priority for the group were both assessed during the second half of 2005.

The principle of transparency and the right information in corporate governance should ensure timely and accurate disclosure on all material matters regarding the corporation, including the financial situation, performance, ownership, and the governance of the company. Indeed, earlier studies and reports have shown that SMEs are characterized by a simple and low-skilled centralized structure and an underdeveloped information system. Information is often conveyed informally by running through dialogue and direct contact, which for the manager are the best practices to also exercise control. This is why the distinction between executive and entrepreneur is preferable. Moreover, according Marshesnay (1994), this distinction must be made for the following reasons: The directors and key executives should inform the board of any significant interest they might have directly, indirectly, or on behalf of others in a transaction or matter directly affecting the corporation. Where stakeholders participate in the SMEs governance process, they should have access to timely, regular and reliable information. Dissemination of such information should include, without limitation, the following: the financial performance and operating results of the company's business objectives, the major share ownership, and the voting rights. The information of directors is crucial for the proper functioning of the board. Board members must have all the information needed to accomplish their mission. This information must be concise, relevant,

authentic and synthetic. The period of availability of such information must be reasonable. However, in practice it can become a complex problem because it takes into account the completeness of the information and the time required for analysis. Given the diversity of the actual situations, it seems reasonable to empower administrators themselves on this issue.

3.2 Rights and equitable treatment of all shareholders

The principle of the equal treatment of shareholders, in addition to being a general principle of good corporate governance, is now also a legal obligation subject to a law in force since 1 January 2012. It is, therefore, more than a recommendation to the company; it is an obligation of the latter to act equally towards its shareholders, provided that they are in a similar position. SMEs governance is shaped by all the rules, laws and regulations, case law and contractual terms that define the management of the company. Most SMEs have a share - manager whose influence is paramount, more so when he is at the origin of the company. We must, therefore, emphasize that the reference shareholders may be the first victims of mismanagement. A system of SMEs governance should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. It must recognize the rights of stakeholders in the life of such a society defined by applicable law or through mutual agreements, and encourage active cooperation between corporations and stakeholders to create wealth and employment for the sustainability of financial enterprises. In the spirit of reasonable governance, the duty of surveillance means that the directors collectively ensure consideration and respect for the interests of all shareholders. This ensures the ability of the executive to conduct business in a sustainable manner. Shareholders holding shares of the same series within a class should be treated on an equal footing. Shareholders, including institutional investors, should be allowed to consult with each other on any matter relating to the fundamental rights conferred by their status as a shareholder, defined above, subject to exceptions to prevent abuse. All shareholders should have the opportunity to obtain effective redress for violation of their rights. Minority shareholders should be protected against directly or indirectly abusive acts by the controlling shareholders or their interests, and should be provided effective remedies. Processes and procedures for general shareholder meetings should allow for equitable treatment of all shareholders.

In the case of France SMEs, the real issues of governance will instead focus on a relationship between the freedom of entrepreneurial action officers and the protection of minority shareholders. As regards freedom of entrepreneurial action, it is the managers who are most often the majority, and therefore, those who bear the main risk mismanaging shareholders. On the other hand, the protection of minority shareholders could affect the understanding that the Board of Directors or, where appropriate, the supervisory board, whatever its composition, is a collegial body that collectively represents all shareholders and which imposes an obligation to take into account all the circumstances of the corporate interests of the company.

3.3 Responsibilities of managers

According to the OECD, corporate governance involves a set of relationships between the company management, its board, its shareholders, and other stakeholders. It is oriented towards maximizing the market value of a company, sometimes called the "shareholder value" (Lazonick, O'Sullivan, 2000; Caby, Hirigoyen, 2005). In theories of corporate governance there is a fundamental duty of managers is to increase shareholders' value.

In institutional theory, governance refers to the institutional organizations and more recently, the issue of financialization, managers' institutional power that makes the social interest. The qualities of the

managers and the team around him are an essential asset in business life. Thus, we must be aware that the risks of each function run the company. The SME manager holds a considerable weight on his or her business, both in the content of the activities and the strategic direction of the organization about the inner workings. In this regard the entrepreneur as an omnipresent role is considered when determining the SMEs. The latter is defined as “*a unit of production or distribution, unit leadership and management, under the authority of a fully responsible officer of the company, which he owns and which is often directly related to the business life.*” Managers are, as appropriate, the president, the chief executive officer (CEO) and the chief operations officer (COO) in public limited companies; a board of directors, the chairman, and board members in limited liability companies; and a management board, supervisory board, and the manager in companies limited by shares. In this case, there is a separation between the financing and the management of the firm just like there is a separation between ownership and control, (Berle and Means, 1932). Shareholders are often natural or legal persons maybe individually or through mutual funds. However, they may entrust the management of their portfolio to managers under a management mandate. In contract theory of society, the shareholder has a lot of clout. He theoretically has the power for the removal of officers that he can exercise in the general assemblies.

Given the broad mandate granted to managers, it seems reasonable that the system of governance examines the entrepreneurial and managerial skills including how to implement them in case of total or partial exercise of its functions. The entrepreneurial skills of managers, and fortiori when they are founders, are critical to the valuation of the company, whether because they represent a direct shareholder, or else because they embody expertise then geared to investors.

Corporate governance has traditionally been associated with the “*principal-agent*” or “*agency*” problem. A “*principal-agent*” relationship arises when the person who owns a firm is not the same as the person who manages or controls it. For example, investors or financiers (principals) hire managers (agents) to run the firm on their behalf. Investors need managers as professional agents to generate returns on their investments, and managers may need the investors’ funds since they may not have enough capital of their own to invest.

3.4 Responsibilities of the Board

The existence of a system of internal control requires better facilitating collaboration between minority and foreign shareholders. In this context, the board of directors shall be a collegial body that collectively represents all shareholders and imposes an obligation to take into account all circumstances including the corporate interest of the company. According to Igor Belikov (2011), “*to be a positive force for good governance, that thesis issues that every board member and prospective board member should continuously ask - if he or she is fulfilling their particular board responsibilities properly.*” He plays the role of surveillance in companies with a board of directors. But this task can be over the supervisory board in companies with a management board and a supervisory board. The key to this view of board effectiveness is the logic that a group of properly qualified and experienced people prepared with the right information will identify the opportunities and risks for a company, set its values, and direct and control its actions better than a single person would, no matter how skilled he is and how capable he might be. Effective boards accomplish that task through dialogue, constructive challenging ideas, respect for the views of others, and the imperative to reach actionable decisions benefiting the company. In the Bouton report, we notice also that “*A council must therefore be a good mix of skills, experience, and independence to serve the interests of the company and its shareholders. We cannot overemphasize the*

skills and experience that are the primary qualities of directors. They must master the strategic challenge in markets where the company operates, which implies that they have actual knowledge of its businesses. The definition of independent director does not imply a value judgment. The independent directors do not have different qualities from other directors; they would simply act more in the interests of shareholders."

In France, according to law, in addition to this role of overseer, the board of directors, its decisions and control, determines the direction of the business of the company. The board of directors is a collegial body that collectively represents all shareholders and which imposes an obligation to take into account all the corporate interests of the company. Meanwhile, it must be noted that in most SMEs, confusion of the three powers "*executive*," "*monitoring*," and "*sovereign*" (i.e. managers, the board of administration, and shareholders) is common because the presence of reference shareholders often predominates.

Furthermore, it is useful to specify, as clearly as possible, what is expected of directors by the internal regulations of the board, which sets the rules according to the situation of the company. The key determinant of effective SMEs governance is the existence, integrity and effectiveness of the board of directors. Board integrity and effectiveness involve the interaction and combination of a number of factors. These include the extent to which members of the board have appropriate experience and competency; whether they receive appropriate information in a timely manner for analysis and decision-making; and whether they understand, accept, and carry out their individual responsibilities as directors while acting collectively with their fellow board members for the long-term good of the company.

3.5 Some constraints noted in the principles of corporate governance

In France, as in many other countries, the remuneration of corporate executives remains a very strong taboo. Protests of the imbalance between actual business performance and executive compensation are often heard of. The remuneration of French bosses has been in the spotlight in recent years due to several financial scandals. The lack of transparency towards and the lack of control from shareholders is especially pointed out frequently. According to Sebastian point, there were some years where it was unthinkable for the French managers to agree to lift the veil on their financial compensation.

A loosening of ethics by the ruling class is increasingly marked by the substantial increase in executive compensation, with the temptation to gain personal interest before that of the company taking precedence. Some methods of performance management are generally unreliable and often lead to corruption. Officers or shareholders, and those with small or medium-sized family businesses wish to share property, control, or any gains as well as decisions about the allocation of resources and benefits with others. This is what Jensen (1998) means by "*agency problems with one self*" and when he says "*owner managers have incentives to take actions that can harm themselves as well as those around them.*" The power is not symmetrically distributed in the firm, and the owner-manager can exploit subordinates. This is what Perrow (1986,) calls "*owner opportunism.*"

Managers are rarely subject to external shareholders' control, allowing them to pursue their own goals instead of the SMEs'. Through this, they can maximize their utility while still striving to achieve their personal and family aspirations outside of work, rather than try to maximize profit or to satisfy all of his or her employees. The lack of knowledge of some managers or leaders is often mentioned. The managers of SMEs often lack adequate training, including managerial and technical skills. This is usually due in part to the inefficiency of the basic education system against the requirements of the private sector. The owner can direct his business all his life without having the qualifications of a contractor, but he would be a mere technician seeking innovation while getting nothing more than a low average and, at best, stable

performance. That is why it is sometimes important that the board of directors is on the side of shareholders. Even if he must recognize that the coalition cannot exist at the expense of managers. At times, however, we see some coalitions between a board of directors and managers where either both win or they each silence the other. This often causes a problem of confidence. Some board members are not always aware of the governance arrangements and their responsibilities. This is especially true in firms with high family ownership where representative administrators are not always well-informed of their duties.

“*Small is beautiful*,” is the ideal presentation of the SMEs, but because of its small size, they often end in failure. Shiffer and Weder (2001) clearly show that the small size for SMEs is generally quite noticeable, often presenting a permanent disability in all domains. Beyond legal and regulatory constraints, the problem of SMEs governance, particularly related to the credibility of the board supervisory, and sometimes his non-existence. This often leads to a problem of management and leadership that can pollute the social climate at the business. In a specific country’s context, we can also find out some discriminatory effects faced by SMEs.

4-Conclusion and Recommendations

Following the different readings and reports in this field, it can be assumed that an effective system of SMEs governance should ensure compliance with applicable laws, rules, rights, and duties of all interested parties. Further, it should allow companies to avoid costly litigation, including that related to shareholder claims and other disputes resulting from fraud, conflicts of interest, corruption, and insider trading.

Also, SMEs managers should be able to minimize the risk of personal liability. Adherence to good corporate governance standards also helps to improve the decision-making process. For example, managers, board of directors and shareholders are all likely to make more informed, quicker, and generally better decisions when the company’s governance structure allows them to clearly understand their respective roles and responsibilities, as well as when communication processes are regulated in an effective manner.

This, in turn, should significantly enhance the efficiency of the financial and business operations of the company at all levels. High quality corporate governance streamlines all the company’s business processes and this leads to better operating performance and lower capital expenditures (Paul A. Gompers, 2001). In turn, it may contribute to the growth of sales and profits.

Good SMEs governance practices contribute to enhance and improve a company’s reputation, efficiency and its development. Thus, those companies that respect the rights of shareholders and creditors, and that ensure financial transparency and accountability will be regarded as being an ardent advocate of investors’ interests. As a result, such companies will enjoy more public confidence and goodwill.

The laws and regulations that affect the practice of SMEs governance in a given country should be consistent with the rule of law, transparent, and be able to be implemented. It is recommended that board members assess whether the information communicated to them is sufficient and, where appropriate, any additional information they deem useful is needed. It is recommended that the rules provide practical arrangements for issuing this information within a reasonable time. It is also recommended that the SMEs provide all necessary information to directors between board meetings. With respect to compensation, it

should not be that the manager induces preferences for strategies rather than other people. The level of executive compensation should be incentive but should not be so high that the manager loses the same sense of reality experienced by others in the SMEs. In the context of governance, rather than focusing on the level of compensation, it is important to have clear rules that define it. Currently shareholders exhibit low confidence in managers because of numerous scandals, bankruptcies, and abuse of which the latter in collaboration with the board of directors are the authors. Even taking into account the complexity and the difficulty of finding independent directors for companies of medium and small size, it is essential that shareholders can actually decide on the choice of each director.

A realistic mindset must be kept for the sake of reappointment in order to avoid longer durations which could ultimately harm the independence of the administrator, but also too short of durations, which would discourage investment in the company. The bodies responsible for monitoring, regulating, and enforcing should have the authority, integrity, and resources to carry out their duties with professionalism and objectivity. Moreover, their rulings should be timely and transparent.

With respect to the issue of fair treatment and the right balance of power, one should recognize that certain management decisions may affect the interests of the minority stakeholders, and that administrators must ensure a balance of power. Their role is essentially to ensure that there is no drift, a too strong alignment between the manager and the shareholders, nor too weak a relationship. They must ensure that whatever the relationship does, it does not affect the quality of governance, their or the strategic decisions. or having the founding officers manage the business without considering the interests of shareholders. Regarding the directors, they must play an active role in the leadership to demonstrate the merit of their being chosen.

The field of investigation in SMEs governance is particularly complex. Despite the efforts we have made to understand the contours of our theoretical analysis, we recognize that many areas of research remain open in order to better understand the business practices of SME and the links between them and larger companies for example. Unresolved issues are particularly numerous and we are still far from having a theory for understanding the influence of the system of corporate governance in terms of wealth creation, especially in the two main systems that prevail in developed countries.

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