

In this article, we look at what corporate governance means for SME owners and the various ways in which it can benefit them, regardless of the stage of development of their business.

The value of governance for SMEs

A common misconception we encounter among SME owners in the Middle East is the idea that corporate governance is only for large, publicly listed firms, and that it has no relevance to their businesses.

In fact, although SMEs aren't legally required to implement the same type of governance structures as public corporations, introducing certain aspects of corporate governance can still have a direct effect on their success.

In our experience, the earlier in their lifecycle that SMEs begin to introduce the building blocks of effective corporate governance, the sooner the value becomes apparent, in terms of growth, stability, resilience, and continuity.

What is corporate governance?

Corporate governance is an umbrella term that essentially relates to the systems of management and control which a business has in place.

The main aim of corporate governance is to ensure accountability, and transparency in all the company's activities.

How can corporate governance structures benefit SMEs?

In the context of SMEs, corporate governance is important in formalizing the structures and mechanisms of decision making, so that less pressure is placed on a single leader—i.e. the owner; and providing internal control systems which allow the owner to delegate authority effectively while retaining oversight.

Implementing even the most basic corporate governance structures can deliver a range of benefits, both in the short term and into the future.

Strategy

Appointing independent advisors or forming a board of directors can help SMEs to separate the advisory and executive functions, in preparation for future growth. This is particularly useful in businesses where the owner occupies both a strategic and executive role, which is common in SMEs. Bringing in qualified and experienced advisors can help owners to keep sight of the long-term vision for their business as they grow.

Investment

Lenders and investors have much greater confidence in businesses that demonstrate good governance, as the increased transparency and accountability help them to predict future success. Implementing an effective corporate governance framework,

therefore, gives SMEs a significant advantage when seeking investment or credit. Even if fundraising is not a current priority for the business, getting the foundations in place at an early stage will prove valuable in the future.

Credibility

Good governance is not only an important factor in building trust with investors, it's also vital to maintaining credibility with other parties, whether that's potential business partners or prospective customers. By offering external parties an accurate and transparent picture of the internal workings of the business, SMEs can build confidence, improve their reputation in the sector and find it easier to build productive business relationships.

Structure

Many SMEs have a very flat management structure, and this can mean that undue responsibility is placed on the owner to be the arbiter of every decision, even relatively minor ones. Adopting a governance framework helps SMEs to build the policies and procedures necessary to guide managers and staff in making day-to-day decisions confidently without delegating responsibility upwards.

Risk management

All businesses face a variety of risks, but often don't have an accurate picture of the relative severity, potential impact, and likelihood of

occurrence related to each one. Effective corporate governance introduces a structured approach to risk management, and ensures that internal controls are in place to identify, monitor, and mitigate risk—a vital part of building a resilient business.

Compliance

A lack of oversight when it comes to regulatory compliance can be costly for SMEs, with the potential for significant penalties or sanctions. Corporate governance helps businesses simplify the process of dealing with auditors, tax authorities, or government representatives, making it easier to do business both in the Middle Eastern region and globally.

Innovation

The better that SMEs can manage existing risks facing the business, the more they can afford to introduce new initiatives. From product development to new partnerships or ventures, to entering new markets, having effective governance structures in place provides visibility of the associated risks. The more oversight and understanding of risk that SMEs have, the greater freedom they have to identify new opportunities, innovate and create without worrying about overextending finances or resources.

Getting started

As we've seen, implementing a formal governance structure early in the life of an SME gives it a significant competitive advantage and lays the groundwork framework for future growth and investment.

As well as maximizing the potential rewards, adopting corporate governance principles as early as possible is far less disruptive than trying to retroactively apply these standards once the business has grown.

For owners of SMEs looking to get started with corporate governance, MEIoD offers a range of services and capacity-building programs designed specifically to support and assist them. [Contact us](#) or visit [Entrepreneurs](#) segment to learn more.

About the Author:



Maali Q. Khader is a highly experienced, effective, and trusted lawyer. Today she is a luminary in the corporate governance, sustainability, legal training, and advice sectors.

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