

---

**CORPORATE GOVERNMENT AND ITS RELATION WITH STRATEGIC DEVELOPMENT OF SOME'S- IN ANTIOQUIA**

By: ABEL M. CANO MORALES<sup>2</sup>  
WILLMAR DARÍO GONZÁLEZ ECHEVERRI<sup>3</sup>

**Abstract**

A Corporate Government in a country such as Colombia is seen as an opportunity that the SME's have to openly access and compete in domestic markets; however, it specially has to do with negotiations that may take place in international markets for many investors consider Good Governance Codes magic norms or guidelines which open or close doors in international settings, and even more when it concerns conducting trade processes with multinational companies, because for transnational companies transparency, integrity, good corporate practices and control have become a mandatory item in a negotiation; furthermore, the issue of corporate governance has also become mandatory for it is of great interest to all institutions both public and private. All of this is because the current crises of organizations and agencies in charge of exerting good corporate practices have led us to the proposal of studies on the cost-benefit relation of a corporate government in Colombian companies, especially SME's for as it is well known, that they represent 95% of the economic potential in Colombia.

**Keywords** Confidence, Anti-ethical problems, Fraudulent Handlings, Asymmetric Information.

**JEL code** M2, M4, Z.

**INTRODUCTION**

The City of Medellin and its Metropolitan Area have been characterized as notable symbols of creativity, and of corporate, economic and social development. Nonetheless, it is more than just one of the most important promoters of social corporate responsibility in Antioquia and in Colombia; hence, the character and capability for economic and social recovery Antioquian business people have shown during recent decades. Those who daily show a world, that permane

---

<sup>1</sup>This paper arose as a proposal which is being studied by the GESTOR Research Group at Universidad de Antioquia, and which is a result of the development of a research project named "Good Governance Codes in Small and Medium Companies in the Metropolitan Area in the Province of Antioquia", which is financed by the Escuela de Gobierno de Antioquia (Government School of Antioquia) and the School of Economic Sciences at Universidad de Antioquia and it was conducted by research professors: ANA MILENA MEDINA OROZCO, ABEL MARIA CANO MORALES, y MARCO ANTONIO MACHADO RIVERA. They are faculty members of the School of Economic Sciences at Universidad de Antioquia.

<sup>2</sup> Docente, investigador y Jefe del programa de Contaduría Pública de la Universidad de Medellín, Antioquia, integrante del Grupo de Investigación Contables y Gestión Pública GIIP. Contador público. Especialista en gerencia de impuestos del Instituto Superior de Estudios Tributarios. MBA de la Universidad Autónoma de Bucaramanga. Magister en finanzas del Instituto Tecnológico y de Estudios Superiores de Monterrey. Certification en Norma's. The Institute of Internal Auditors de Londres. Doctor en administración pública, American Andragogy University. Dirección electrónica: amcano@udem.edu.co. Valor ORCID 0000-0002-5141-2756. <http://www.researcherid.com/rid/J-3813-2016>.

<https://scholar.google.es/citations?hl=es&user=mTKtsd8AAAAJ>.

<sup>3</sup> Docente e investigador de la Universidad de Medellin, Antioquia, Contador público de la Universidad de Medellin. Magister en Tributacion y Politica Fiscal, Universidad de Medellin. Dirección electrónica: wdgonzalez@udem.edu.co

Permanently observes the true spirit of their Province of Antioquia, a spirit that respects loss, which recalls its heroes, and its entrepreneurs and a spirit that goes on with determination and self-confidence aimed at well-done things.

People in the Province of Antioquia have written and are still writing one of the greatest chapters in the history of Colombia. Moreover, every Colombian should be proud of Antioquia, especially of Medellin and its Metropolitan Area. One must see how this beautiful city succumbed to a fiction economy that ruined the confidence of our elders and trust in their companies licitly and wholly constituted which for decades were not only an example of transparence, growth and development, but also of an altruist sense and social responsibility. They transcended their own comforts to make the lives of their workers and of their families more pleasant and gave them a noticeable quality of life. These companies tumbled down because people who were power hungry and coveted easy money greatly deteriorated our corporate system and our economic and social structure.

All of this is due to the fact that in this Province like in the rest of the country, we have not been strangers to corporate non-governance which has desecrated our ethical foundations, disavowing the corporate advances of male and female entrepreneurs. The very same who despite their own peace of mind and of their own economic stability have seen how their companies which have cost them many years of sweat and tears dwindle off leaving behind a pandemonium of uncertainty and each time at a higher level of unemployed people without taking into account that we also have less economic and social development, instability and distrust. All of this is because the interest groups involved in the administration and sustainability of these organizations did not follow the practices of good corporate governance.

Therefore, it must be evident to everyone and specially to interest groups and Colombian businesspeople that the economic and strategic development of companies must be founded on trust and conviction that our free enterprise system will continue being one of the most efficient and most promising in the country, and as a result of this every day, we will have more and better companies.

This trust is justified in new technological developments in teaching in our colleges aimed at attracting human talent from the various regions in Colombia. This is done so that there may be investment in our companies, in such a way that our workers, employees, producers and farmers will benefit from the various opportunities given in the environment through better incorporated companies and much more solid allowing them to compete in various scenarios in the modern world and remain in the economic environment. (Ravichandran K. Subramanian, 2016).

Our society is conscientious of business people's effort and devotion and it retributes hard work and honest ambition which lures people to our shores from everywhere around the world and who share our values. This is why we can state that Antioquia's economy has become the most creative system yet, the most entrepreneuring and productive ever thought of by any given society; however, unfortunately, it has fallen behind because today some businesspeople have

changed their philosophy for a sophism that leads them to be traders who want to see their wealth grow in a short term and with the least effort.

Nonetheless, the time has come to talk about a serious problem for our financial markets and the confidence on which they support themselves; this caused a violation of transparency by means of some of the crimes which are being discovered in some sectors of the corporate world, causing inefficiency in corporate development and in the acquisition of new capital from various investors both national and international; moreover, one can see that the well-being of many workers is being affected diminishing access to employment and free competition.

Therefore and considering the afore-stated lines, we can say that this paper is related to a topic which despite the fact that there has been a high degree of progress in the most developed economies; unfortunately, Colombia has advanced very little or nothing. The topic at hand is the adoption of codes of good governance, or what is the same as accepting and including our SME's in international trade processes for which they must not only have quality, but also good practices and transparent information achieved solely through access to corporate governance; hence, this paper will present the SEM's that currently have codes of good governance in Medellin and in its metropolitan area.

In view of the above, it is worthwhile mentioning that currently companies of any size (Micro, Small, Medium and Large), must fortify their own self-control, for corporate governance is no longer a fashion, and has become a demand of the corporate world, especially in international business.

Finally, it is useful to point out that the reflections found herein are a product of a research on the "Codes of Good Governance of SEM's in the Metropolitan area in the Province of Antioquia" which was sponsored by the (School of Governance of Antioquia) "Escuela de Gobierno de Antioquia" and the School of Economic Sciences at Universidad de Antioquia and it was conducted by Research Professors: ANA MILENA MEDINA OROZCO, ABEL MARIA CANO MORALES, and MARCO ANTONIO MACHADO RIVERA. Faculty Members of the School of Economic Sciences at Universidad de Antioquia.

### **CORPORATE GOVERNANCE AND INTERNAL CORPORATE CONTROL**

**This paper commences defining CG (Corporate Governance) and its direct relation with internal control and Sarbanes-Oxley's Act, as well as, its philosophical principles.** Further on, it presents the definition of an SME and concludes referring to SEM's in Medellin and its Metropolitan Area, that have CG processes (Act The Sarbanes-Oxley., 2002).

To define CG, it is important to comment that the word governance does not exist in Spanish and its nearest translation is "Gobernabilidad Corporativa". There is another term, "gobernanza", yet it is not commonly used and it is hard phonetically. Therefore, former term was used in the Spanish version of this paper.

Governance as such has been defined as the act or process or power to govern. State of being governed. The American Heritage® Dictionary of the English Language. Exerting authority, control, government, settlement. Webster's Revised Dictionary. The people (committees or department) that constitute a government body and administrate something. The act of governing or exerting authority WordNet ® 1.6, © 1997 Princeton University.

Beyond dictionaries own meanings, it is luring to take a stroll down the perception that various sources have regarding the concept of Corporate Governance.

According to (TRIPIER, 2008), CG is a term that has recently arisen as an autonomous discipline; even though, the original seeds of this concept are found in the threads of economics, politics and law coming from centuries ago. The importance of the topic is known world-wide, but terminology and analytical tools still seem to be evolving and they are getting ready to outdo themselves from day to day.

USM defines it as the faculty of sharing the responsibility of management and important decision-making in a company concerning empowerment of human resources, research, corporate mission and budget.

The Organization for Economic Co-operation and Development ((OECD), 1999) defines Corporate Governance as the system by which private and public companies are managed and controlled. The structure of a corporate government specifies the distribution of rights and responsibilities among the various actors in a company, for instance, the Managing Board or Council, President and Directors, Shareholders and other third parties that contributed resources.

The School of Economics at the University of New South Wales provides us with a more limited definition of corporate government. It refers to the form by which a company protects its shareholders' interests and those of other debtors. Principles focus on emphasizing protecting small shareholders for large shareholders generally do not require protection. In a wider sense, it deals with the administration's responsibility, including directors (managers and members of the Board of Directors) before shareholders and other debtors.

Finally, it is necessary to remark on (CANO, 2007). Cano's words who proposes that the concept of corporate government is a set of principles and rules that regulate the design, integration and functioning of the governing organs of a company as the three powers in an association, shareholders, Directors and Top Management. A good Corporate Government provides incentives to protect the company and shareholders' interests, to monitor the creation of value and the efficient use of human, economical, financial and technological resources, among others.

The concept arose several decades ago and appeared in the most developed western countries, as in Canada, The USA and Australia; furthermore, it is the consequence of the need that especially small shareholders in a company had to know the state of their investment. In other words, they wanted to know what was being done with their money and which their expectations would be.

This made large shareholders of a business and managers commence processes to open up information and at the same time the professionalization and transparency of that information.

In the world, the stock market, pension funds, mutuals, insurance companies, joint-ventures and alike are an important part of the financial system and their needs to have information concerning their investment has been definite in the assimilation of the so-called better corporate practices.

As stated some paragraphs ago, the Organization for Economic Co-operation and Development ((OECD), 1999), in May 1999 issued its “OECD Principles of Corporate Governance” which holds the basic ideas that shape the concept used in member countries and in others in via of becoming members.

At present, Corporate Governance is as important as the internal financial performance of organizations. It is said that about 80% of foreign investors would pay more for a company with good CG, for it is precisely this what provides greater security for their investments assuring healthy economic policies and good corporate practices. Greater transparency and more information available will increase market investors’ trust. Thus due to the above, CG far from being a fad, it is deemed an essential concept for company sustainability and growth. (GARY., 2015)

It is worth pointing out that Sarbanes-Oxley’s Act of 2002 has rewritten the rules for CG, disclosure and corporate reports. But beneath the thousands of pages of legality, a common premise arises; good CG and ethical business practices are no longer options; they are the law.

Section 404 of Sarbanes-Oxley’s Act greatly concentrates on the critical role of internal control. Since internal control is a process performed by the boards of directors, the management and other personnel of a company that promotes the success of a business in the following three categories:

- a) Efficacy and efficiency of corporate operations
- b) Reliability in financial reports
- c) Compliance of applicable laws and regulations

Sarbanes-Oxley’s Act makes general managers (CEO’s) and general financial managers (CFO’s) more utterly responsible for establishing, evaluating and monitoring the efficacy of internal control of financial reports and disclosures. Likewise, it makes company executives explicitly supporting in establishing, evaluating and monitoring the effectiveness of the internal control structure of their company. (CHUN. 2013). For many executives, the complexities of fulfillment and the implications of failure may be discouraging.

Now regarding Internal Control from a legal point of view, it is a system that includes an organization schema and a set of plans, methods, principles, norms, procedures and mechanisms to verify and evaluate. It is adopted by an entity to try to have all activities, operations, performances, and information and resource management executed in compliance with

constitutional and legal norms part of the policies drawn up by directors in accordance with foreseen goals or objectives.

According to what (CHACÓN, 2001) stated, internal control is a process integrated into processes, and not an asset of heavy bureaucratic mechanisms added to processes themselves. These internal controls are performed by the administrative council, directors and the rest of the personnel of an entity with the aim of providing a reasonable guarantee to achieve objectives. Internal control is a process; in other words, it is a means to reach an end and it is not the end in itself; it is carried out by people acting at all levels. It is not only a matter of organization manuals and procedures; it can only contribute a degree of reasonable assurance and total assurance to direct and fulfill objectives. When talking about internal control as a process, it refers to a chain of actions extending to all other activities, inherent to management and integrated into its other basic processes including planning, execution and supervision. Those actions are incorporated (not added) to the entity's infrastructure to influence the fulfillment of its objectives and to support its quality initiatives.

#### **WHAT IS CORPORATE GOVERNANCE AND WHAT IS IT FOR?**

Enough has been said about Corporate Governance and the codes of corporate governance, but no exact definition has been given regarding the meaning of corporate government and corporate governance. At first, it is important to define the concept of corporate governance as the policies or norms that are established to defend some members or stakeholders of the company; on the other hand, other authors have explained it as a road to have control over manipulating practices promoting a change in corporate culture which, among others, must bear in itself greater diffusion, transparency and homogeneity of the information submitted by companies concerning their government mechanisms to try to uphold reliability and credibility of the company's information. This is done to establish an organizational ambient which starts with transparency in markets to promote a sane competition and high ethical standards in human beings. This brings about employees' loyalty and commitment to watch over stockholders stakes to grant them a wide margin of reliability in recovering their investment. On the other hand, it must be vigilant in matters concerning market reliability, and the transparency of management to promote corporate competition, and it must rectify legal and institutional deficiencies found in these companies' operation.

Corporate Governance is seen as an economic development strategy for SME's since it enables the attraction of both domestic and foreign capital and as credibility in the brand and in the activities the company accomplishes; besides it is analyzed as the rise of a threat in the ambient, beginning with frauds submitted in Financial Statements forgetting on one hand the reliability of each one of the organizations, affecting them, in the sense that they have not implemented it to take advantage of all the opportunities that arise in industry where Corporate Governance has become moved on from being a fad to becoming an world-wide demand in the field of business.

**THE NEW CORPORATE PHILOSOPHY OF ANTIOQUIAN COMPANIES REGARDING CORPORATE GOVERNANCE**

Opportunities and threats for various places and territorial economic growth that has arisen as a result of the globalization process have implied important changes for territories. This has led them to the restructuring of their productive processes by means of the development of capacities and of other advantages that may enable them to build innovative and competitive regions. To do so, they have defined local economic development strategies with the participation of public and private actors. The SME's are key actors for they have become the origin and the object of those said strategies when one recognizes that they have a relevant impact on the economies of countries.

SME's have been defined by law 905 in Colombia as every unit of economic exploitation carried out by a natural person or a corporate body in rural or urban corporate activities, farming and industrial activities, and in trade or services which follow (2) two parameters:

- **Medium Company.** It is company that has a staff of (11) eleven to (50) fifty workers, or has a total of assets valued from (5,001) five thousand one to (30,000) thirty thousand minimum prevailing salaries.
- **Small Company.** It is company that has a staff of (51) fifty-one to (200) two hundred workers, or has a total of assets valued from (501) five hundred one to (5,000) five thousand minimum prevailing salaries<sup>1</sup>

Internationally, the definition of an SME has substantial differences; although these differences are explained by the conditions and characteristics of the economies of various countries and regions and by the strengthening policies towards which most of them are heading.

The following is a comparative chart of the definition for SME in some countries.

Chart # 1. Definition of SME according to income and/or assets and number of workers.

<b>Countries</b>	<b>Annual Income or Value of Assets</b>	<b>Number of Workers</b>
<b>Colombia</b>	From 501 to 30000 minimum prevailing salaries <sup>2</sup> (from 107,806.35 to 6,455,470 US\$)	From 11 to 200 workers
<b>Chile</b>	From US\$ 81,000 and US\$ 3,400,000 (Ministry of Economics)	From 5 to 199 workers (Sociedad de Fomento Fabril (SOFOFA) <sup>3</sup> Guild Association for Companies)

<sup>1</sup> Definition taken from Law 905 of 2004, issued by the Congress of Colombia.

<sup>2</sup> Minimum Prevailing Salaries". 468.100 for 2008

<sup>3</sup> SOFOFA is Guild Association for Companies, for the industrial guild in Chile.

Countries	Annual Income or Value of Assets	Number of Workers
Venezuela	Less than US\$ 3 million.	from 11 to 100 workers
Mexico	from 900,000 to 20 million Mexican pesos (from 83,198.52 to 1,848,856.06 US\$) <sup>4</sup>	<b>Manufacturer:</b> up to 500 employees <b>Trade and services:</b> up to 100 employees
European Union <sup>5</sup>	Less than 50 million Euros (US\$70.9) or a general statement less than 43 million Euros (US\$ 50.7 million <sup>6</sup> )	Less than 250 workers
Japan	<b>Manufacturer:</b> up to US\$ 254.4 million <b>Trade Company:</b> US\$ 85.4 million	<b>Manufacturer:</b> up to 300 employees <b>Trade company:</b> up to 100 employees
Canada	Less than US\$ 16 million	Less than 500 employees
Besides these countries, MERCOSUR <sup>7</sup> defines a company size coefficient, and contemplates criteria such as market share and not belonging to large economic groups.		

## SOME SME STATISTICS

### *In Latin America:*

1. The Organization for Economic Co-operation and Development (OCDE. 2002) points out those small and medium companies constitute 95% of the companies in member nations; thus, it has become the origin of government policies aimed at the growth of the GDP and improvement of employment. The following are the results to the studies conducted by the World Bank

<sup>4</sup> Exchange rate: 1 Mexican peso equals US\$ 0,09244.24 of October 2007

<sup>5</sup> Besides income and number of employees, then EU demands that for companies to be considered SME's, these companies cannot have more than 25% of the market of those companies that do not comply with these requirements.

<sup>6</sup> Exchange rate: 1euro equals US\$ 1.172. on October 24, 2007

<sup>7</sup> Integrated by Argentina, Brazil, Paraguay and Uruguay



Chart # 2: Importance of SME's in GDP and in employment in some countries

Country	Importance of SME's in GDP	Importance of SME's in employment
Panama	60.1%	72%
Peru	55.5%	70%
Argentina	53.7%	68%
Colombia	38.7%	67%
Ecuador	20.0%	55%

Source: Taken from the 2006 World Bank Statistics

The impact SME's have upon a country's production levels can be seen. Panama is the country where SME's contribute most to the country's domestic production, and likewise, they generate more employment; on the other hand, Ecuador is the country where SME's least contribute. Colombia has a significant percentage regarding its overall production, but in contrast with other countries it must improve its SME management systems, for they represent 96% of the countries establishments, and could have a greater impact on the GDP. Moreover, this leads to its participation in employment rates where it is significant in each one of the countries providing better quality of life for their inhabitants.

**In Colombia:** According to the Ministry of Development (Ministerio de Desarrollo)<sup>8</sup>, SME's are 96% percent of the companies in the country; they produce 67% of industrial employment, carry out 25% of the nation's traditional exports and pay 50% of the salaries. This shows the importance SME's have upon local, regional and national development by attaining an impact on the people's level of life.

A Superintendence of Corporations of Colombia (Superintendencia de Sociedades de Colombia) study shows that 40.5% of the companies registered in that office are small companies; 54.2% are classified as medium and they are mainly located in the country's main Provinces, as follows:

Chart #3 Distribution of SME's in the main Provinces in Colombia.

Province	Participation
Bogota D.C	59.53%
Antioquia	12.37%

<sup>8</sup> SME's in figures, Article in Dinero magazine on June 14, 2002. N° 159.

Province	Participation
Valle	11.87%
Atlántico	3.94%
Santander	2.02%
Cundinamarca	1.41%
Bolívar	1.39%
Caldas	1.31%

Source: Taken from: SME's in Colombia: Evolution, Development and Promotion (Las Pymes en Colombia: Evolución, Desarrollo y Fomento) 2007. Risaralda Planning Department Bureau (Secretaria de Planeación del Departamento de Risaralda)

In the Metropolitan Area of Medellin in the Province of Antioquia, an overall number of 1,559 SME's (classified according to their assets and number of employees) participate in the various economic sectors as:

Chart # 4 Economic Sectors in which SME's mostly participate in the Metropolitan Area of Medellin in the Province of Antioquia.

Sector	Total Companies
Real Estate	10%
Agriculture	5%
Trade	33%
Construction	5%
Education	1%
Hotels and restaurants	3%
Manufacturing Industries	28%
Financial Intermediation	1%
Mining	1%

Other community service activities	2%
Utilities	0%
Social and Health-care Services	4%
Transportation	6%
Others	1%

Source: Drawn up by researchers based on DAND and DNP’s statistics.

It is noticeable that the vast majority of these companies, 33% are devoted to trading activities, 28% to manufacturing, 10% to real estate, followed by 6% transportation and agriculture, and 5% construction companies.

On the other hand, the following is a distribution of SME’s in the various counties (municipios) in the Metropolitan area noting that the production network is mainly found in Medellin (73.5%), Itagüi (12.2%) and Envigado (6.2%).

Chart # 5 Distribution of SME’s in the Metropolitan Area in Antioquia.

COUNTIES	TOTAL COMPANIES
Copacabana	0.5%
Girardota	0.1%
Barbosa	0.1%
Bello	1.2%
Medellin	73.5%
Envigado	6.2%
Itagüi	12.2%
Sabaneta	4.1%
La Estrella	1.6%
Caldas	0.4%
Total	100.0%

Source: Drawn up by researchers based on DAND and DNP’s statistics.

Regarding the structure of ownership in these companies, in industrial, trade and service sectors, findings show that they are mostly family owned companies; nonetheless, they show that the percentage of family-owned SME's in the service sectors are diminishing greatly.

Chart # 6 Distribution of SME's in the business sector

<b>Family Businesses</b>			
	<b>Sole-owner</b>	<b>Not-Family</b>	<b>Family</b>
<b>Industry</b>	1%	19%	80%
<b>Trade</b>	2%	17%	81%
<b>Services</b>	2%	31%	67%

Source: Drawn up by researchers based on ANIF's statistics. Bogotá, 2007

According to (National Administrative Statistics Bureau) Departamento Administrativo Nacional de Estadísticas, DANE's first national survey of micro establishments for trade, services and industry conducted in the last quarter of 2008, showed that in Colombia in 2007, there were 1,027,615 micro establishments. Of these, 58% were in trade, 30% in services and 12.5% in industry.

During this term, micro establishments produced 1,115,210 employments which would equal approximately 1.1 employments per establishment.

The employment-establishment ratio is 1.8 percent in the trade sector, 2.8 percent in industry and 2.5 % in services.

The survey also shows that in 2007, there were almost 6,989 industrial establishments with 10 or more employees and 186,237 micro businesses.

In trade, establishments with more than 20 workers totaled 3,689 that gave jobs to 198,589 people and totaled 37.5 billion pesos in sales. There were about 563,000 micro businesses with less than 10 workers that produced 656,175 employments and had 9.2 billion pesos in sales.

Chart # 7. Micro businesses and employment

<b>Sector</b>	<b>Establishments</b>	<b>Workers</b>
Trade	562,789	656,175
Services	278,589	306,448

---

Industry	186,237	1562,587
Total	1,027,615	1,115,210

Source: DANE. (Manufacturing Statistics) Estadísticas Manufacturera 2001.

In Medellin and in its Metropolitan Area, there were around 148,975 SME's, of which only 2,748 (DANE, 2001), had codes of corporate governance according to a telephone survey conducted by the research team. However, the only thing actually achieved was to verify their actual existence and a good application of Corporate Governance processes in 26 businesses that were surveyed. The interviewed used evidenced that only three businesses were clear on CG processes and that all the employees participated. As one can see, this situation leaves us in a very poor position, for there are not enough elements that allow one to think that in Medellin and in its metropolitan area there is clear conscientiousness regarding CG processes. Therefore, it is essential for us to commence an education process in terms of CG processes and of the application of these practices in all SME's.

It is worth noting that this situation may be due to the fact that many SME investors and owners simply see their company as a family business and not as a potential company that could even sell its products or services in foreign markets; furthermore, a vast number of these companies do not have premises open to customers for they are located in the houses of business owners.

This leads us to think that we must get owners of 40% of the SME's, that actually exist, to recover a mentality of business people to once more set up the economic network that has identified Medellin and its Metropolitan Area as promoters of free enterprise and economical and social development.

### ***CHARACTERISTICS OF SME's***

In spite of being the object of various government policies, where they are located and despite their natural diversity, they all have common elements, and needs that identify them and differentiate them from large companies as:

- \* **Capital and Funding:** Capital is one of the aspects that mostly identifies SME's worldwide since it is one of the criteria used to classify them (based on assets; although, in countries like Brazil, Chile and Uruguay, they are classified based on income)<sup>9</sup>. On the other hand, Funding is an important common need for SME's which have problems due to imperfections of an unequal market and have trouble accessing capital; this is why most

governments design policies to provide access to credit mainly aimed at promoting innovation, the funding of new ideas, productivity and competitiveness.

- **Structure:** in Colombia's case, SME's are formed as simple organizations and have very little hierarchy, because of their characteristics of family-owned businesses. As the studies carried out by ANIF in March 2007 have shown, 77% of Colombian SME's are family-owned businesses principally managed by a family group; thus leading to a centralization of decision-making.
- **Personnel:** first, the amount of personnel is one of the variables by which SME's are classified internationally. On the other hand, regarding the personnel's capabilities, it is noticeable that in Latin America personnel is ranked low; thus, it requires government support for training and teaching programs in various areas.
- **Access to Information:** in this issue and in general, SME's have a significant disadvantage in this respect compared to large companies for their flow of information is asymmetrical because of their resources and even their size limits their capability to acquire valuable information

In view of the above characteristics and bearing in mind the role SME's have in the economy of countries (independent of their level of development), which contributes a large percent to the GDP and to the production of jobs, this type of company has become the object used to define the guidelines of government policies which have been gradually turning into SME promotion programs to foster productivity, competitiveness, and associatively in order to aid them to surpass those difficulties that limit their growth the most.

The following are the characteristics of SME's in Colombia, Chile, Argentina, Brazil, Venezuela, Mexico, the United States, the European Union and Spain. This characterization is carried out based on comparative advantages (funding capability, labor, technology and access to information) and competitive advantages (Legal framework (SOLÍS., 2002. ) and cluster development), which Michael Porter took into account in his diamond approach to competitiveness and later cited by SOLÍS & ANGELELLI, 2002.

### **Situation of SME's in Colombia**

**Funding Capacity** (ZEBALLOS. 2006): "In Colombia, access to funding is the third most important obstacle for business people (after violence and taxes) as Zeballos stated (ZEBALLOS. 2006). The most sensitive aspects in this area are: insufficient guarantees, high credit costs, high financial system costs (associated to the relation between the size of the SME credit and fixed banking costs, the concentration of loans in business conglomerates, among others), the absence of risk capital (due to investors' tax load, and the restrictive legal framework among other reasons), the absence of mechanisms like factoring and leasing (which become difficult due to the associated risk, small amounts and the scarce information available), among other factors" (ZEBALLOS., 2006).

The resources provided by the financial sector are for immediate liquidity which reduces the possibility of acquiring technology due to a lack of capital. Nevertheless, the government has taken the position of guarantor of the indebtedness of a segment of SME's through the (National Guarantee Fund) Fondo Nacional de Garantías in order to ease long-term financing and to promote corporate strengthening (YONGTAE., 2012).

**Human Talent** (YONGTAE. 2012): Companies are facing social burdens of approximately 52% of a worker's salary. Companies face social burdens that equal 52% of a worker's salary, which has become the greatest obstacle for businesspeople within a context of labor.

The lack of qualified personnel is a problem of educational structure in the country which affects all of the productive apparatus specifically technical education. SENA, the main educational institution for technical training and technological assistance, does not comply with its function because it is principally aimed at large companies and has no interaction with business associations and its costs are excessive.

The Annual Manufacturing Survey allows the assessment of the incidence of MISME's have on the Colombian business scenario. They represent 96.4% of the establishments, approximately 63% of employment, 40% of salaries and 37% of the added value. There are over 650,000 businesspeople contributing to the social security system.

**Technology and information** (DONALD. 2012): According to a Fundes study, businesspeople do not explicitly address the technological issue within the hierarchy of problems; nonetheless, access to technology seems to be an issue within the general structure of problems through various channels and one of them is the education system. Access to credit complicates SEM's acquisition of technology.

The lack of information and assistance regarding technological innovations and their applicability in businesses is an additional restriction on technological improvement.

It is impossible to exactly determine SME's investment in research and development. It is worth mentioning that the state's budget to handle initiatives in this matter is practically inexistent. Nonetheless, Colciencias and SENA have been applying some resources to programs targeting these aspects.

According to a study carried out by FUNDES Colombia, nearly 30% of the SME's invest in IT; 28% in equipment, 12% in product enhancement, 10% in managing their businesses, 10% in new products and 9% in productivity enhancement. The study also evidenced that IT investments were very low.

Until recently, the information handled by SME's was scarce, and this created certain disadvantage for businesses. This led various institutions to support businesspeople from all fronts through access to information; thus enabling them to know both their domestic and foreign markets better as in cases like Chambers of Commerce and Proexport (which provide access and assistance in market-related information). Likewise, it includes joint-programs including

Territorial Entities, Universities and private Companies aiming at both creating and strengthening companies.

### **Legal Framework**

- It is a state function to guarantee the good financial operation of the SME's guaranteeing credit to strengthen them.
- There is a national support system (National MiSME's System/ sistema nacional MiPyME) in addition to the (Colombian Modernization and Technological Development Fund for Micro, small and medium businesses) Fondo Colombiano de Modernización y Desarrollo tecnológico de las Micro, Pequeñas y Medianas Empresas (FOMiPyME).
- Support and promotion programs for innovation and technology in SME are resorting to state responsibility fairs as the (National Technological Innovation Award) "Premio Nacional de Innovación Tecnológica".
- SME's are clearly defined in accordance with two variables: Value of Assets and Number of Employees.
- Colombian political priorities are aimed at the creation of employment, the development of human capital and the redistribution of income and as a secondary objective, the promotion of productivity and international competitiveness.

Currently, there is an outstanding increasing private sector participation; besides, there has been a prioritization of the promotion of the creation of new businesses, which is a focus not previously considered.

The main problems policies mainly encounter are: the lack of qualified human resources, slow law enforcement in matters concerning SME's; moreover, there is a lack of information and there is ignorance regarding business people's support tools.

### **Cluster Development.**

There are public agencies for cluster development as Proexport, Bancoldex (in charge of promoting Colombian exports and work with exporters' development plans), Acopi (which carries out cluster development processes with small business people in the region); in addition to the above, there are others like the (Ministry of Foreign Trade) "Ministerio de Comercio Exterior" (which holds associativity workshops in various cities throughout the country) and the (Ministry of the Environment) "Ministerio del Medio Ambiente", which recently have had great influence in cluster competitiveness specially in those made up by SME's since there is a need to have greater SME associativity and integration.

The most representative clusters in the country are: the Touristic Cluster in Risaralda, A service export cluster in Valle del Cauca, a manufacturing cluster in the town of San Jose de Cucuta, a remanufacturing cluster in Cartagena de India's and a cosmetic export cluster in Bogotá.



Let's start this paragraph reflecting upon a precise question. Which deals with the possibility of trusting new corporate structures so the question is as follows: Is it possible to be trusting when our business people have changed corporate philosophy going from long-term strategies to short-term strategies? They have also gone from people with corporate vision to that of merchants expecting immediate profits; and with this making their businesses poorer each time and they have become rich at a personal or individual level. This situation has affected corporate foundations and has deteriorated them to such a point that they no longer think about the companies but instead they think of deals, and they do not think of business people; they think of very wealthy merchants with very poor businesses.

Currently, there are more than one million SME's that contribute more than 50% to Colombia's domestic production and they produce over 70% of Colombia's employment in industrial, trade and service sectors just as Cala has stated (CALA., 2005).

Form the total amount, 700.000 are informal; that is, non-registered and 300.000 are formal or registered. Of the registered businesses, 75% are micro-businesses, 24% SME's and 1% Large Businesses.

Colombia only participates in approximately 0.3% of the total international market, having yearly average exportations of US\$270 per capita. The world average is US\$600 per capita.

It is assumed with economic logic that the expansion of exportations tugs on domestic production and thus the GDP grows. South-eastern Asian economies achieved accelerated growth; among other reasons, because they expanded their exportations and SME's participated with a 60% volume. In other countries like Italy, SME's participate in more than half of Italy's exportations.

Latin America is a great scenario for the strengthening of this economic sector and above all for the growth of foreign trade because its international market participation is very low, 8.2%. It is estimated that of the total number of business units 90% are SME's.

In Antioquia, they are identified as SME's because of both Antioquian workers and business people's outstanding achievements. What previously occurred, going from the country's economic recess to the swift passing of an underground fiction economy evidenced its destructive ability and led us to scenarios where everyone points at us and judges us. People have not taken into account that in this beautiful region of Colombia there are still many workers and business people who have defied pessimists every day and have established the foundations for a sustained economic recovery. Thus, the time has come for the academic world to become more involved in economic, social and corporate development and to promote among its students the ability to produce employment through new businesses that center their operations on good governance practices, because the time has come to enter into a new processes or a new type of trust, trusting the character and conduct of our trade leaders.

Concerning the above, it is worth noting the importance of the university-company-state relations in pro of the development of corporate management, knowledge and technology that may be implemented in various organizations to upgrade their efficiency, and every new business must look for other resources and will depend on university initiatives with the quality training and technical assistance that they provide.

Making the above explicit has shown that currently Antioquian economy is growing while faith in the integrity of Colombian trade leaders is being undermined. Almost every week, People bring economic news, but they are blurred by news that report new frauds and financial and economic scandals, which are problems that began long ago but are just currently being disclosed

Every day, we can see how some unscrupulous trade leaders obstruct justice and deceive their clients, forge documents, and trade executives' abuse trust and power. Likewise, we have seen how key executive officials earn thousands of millions of Colombian pesos in bonuses just before their companies go bankrupt, leaving their employees, retired workers and investors to suffer the consequences while these individuals live it up at the expense of the economic and social deterioration of the regions and of the country.

Most business people are honest. They treat their workers and shareholders well. They do not take ethical short-cuts and their work helps to produce an economy that is the envy of the world, but where are these people migrating to? Because every day they are being attacked by unbecoming practices that contradict their way of doing business; thus every day, they allow economy to deteriorate in regions and obstruct local, regional and national development.

Because of that, many of our business people are taking their businesses to other economies such as Panama, just to mention one of the countries that are benefiting from the ingenuity, creativity and trust of our transparent ethical honest business people. Nevertheless, all of this is due to the so publicized acts of corporate deception which have diminished people's trust. These scandals have ruined the reputation of many good honest companies and been detrimental to stock exchanges. Worst of all, they are in detriment of thousands of people who depend on the integrity of business to make a living and for their retirement for their peace of mind and their economic welfare.

When abuses such as these begin to come afloat in the corporate world, it is time to reaffirm basic principles and rules that make capitalism work: honest accounting and honest people, and well-enforced laws against fraud and corruption.

Every investment is an act of faith and it is attained through integrity. In the long run, there is no capitalism without a conscience; there is no wealth without character.

It is necessary to create new personal ethics of responsibility within the trade community; ethics that enhance consumers' trust, that make employees proud of their companies and once more regain trust of the People of Antioquia and of the People of Colombia.

The most respected trade leaders in the world, among them many who have investments in companies that have set up operations in Colombia, take ethics quite seriously. For instance, we can mention ISA, (Colombian Stock Exchange) La Bolsa de Valores de Colombia, Hoenhs (multinational), and City Bank, among others, which have proposed the guidelines to improve corporate conduct and transparency. They include requirements in matters such as: independent members must form the majority of a company's directors; all members of auditing, nominating, and compensating committees must be independent, and all stock purchase option plans must be approved by shareholders and they must separate their own interests from those of the company. Thus, it is essential for our business people, leaders and company presidents, the Ministry of Trade, Industry and Tourism, itself, to adopt sensible corporate governance reforms through the Superintendence of Corporations, seeking through these common sense reforms to reinstate trust in companies, and they must be adopted as soon as possible.

Self-regulation is important, but it is not enough; the government cannot remove risks from investments or market opportunities; that we know of. But the government can do more to promote transparency, ethics and trust and assure that the risks are fair. The government can make sure that those who breach the trust of the People of Colombia are punished exemplary. In today's case, where there is only a law for the adoption of codes of corporate governance in those companies that are on the stock market, it is necessary for the Superintendence of Corporations to establish a law that covers all Colombian companies regarding the adopting of these codes for their good performance and sustainability in a turbulent changing environment like today.

Therefore, and in view of the lines previously written, we are able to say that the time has come to give way to the corporate governance processes through the codes of good corporate government and the end must be to rescue the lost trust and the strategic development of our SME's and of all our financial, economic and corporate system.

### **What has been the role of the Chambers of Commerce regarding the lack of Corporate Governance in Antioquia?**

In view of this panorama, we are all wondering what has happened to the commitment of the Chambers of Commerce with their members and registered companies, for we have seen a concrete action that allows Antioquian SME business people and the rest of the country to get training and information concerning the matter at hand. Could it be that they are not informed of the matter, or could it be that they have not measured the consequences that corporate ungovernance brings creating chaos and unemployment, or finally they have not studied what has been written and specially what CONFECAMARAS has been presenting (CONFECAMARAS, 2009).

It is worth mentioning without any mistake that what happens is that in many Colombian Chambers of Commerce, they themselves do not have codes of good governance and they openly declare themselves neophytes in the matter, and it is here where one does not understand why CONFECAMARAS, being the organism that gathers all Chambers of Commerce in Colombia,

and the precursor of Corporate Governance, has not created the means and has not deployed the mechanisms to follow up the process and the structuring of Corporate Governance in each one of the chambers of commerce (CONFECAMARAS, 2009).

Well as it is well known, a lack of Corporate Governance has led some Chambers of Commerce into chaos, and the lack of clear policies as in the case at the Chamber of Commerce of Ibagué which has changed its executive president three times up to this part of the year; moreover, employees and business people do not know the reasons that led to those changes; likewise, they also ignore the north set by this chamber of commerce which became political over ten years ago, and thus, it cannot find its bearing it does not present clear Governance policies and is appointing executive presidents in some cases so that their retirement process may end there with juicy monthly payments, without taking into account that with that they were discrediting their business people, because with these processes seen there, it is very difficult for investors to believe in business people and in the entity that should coordinate and direct them, producing what in the business world is known as an agency problem which we will discuss as follows.

### **Agency problem?**

To palliatively understand an Agency Problem, it is necessary for us to know first of all what the theory of agency is. It is worth noting that it is the one that analyzes the forms of formal and informal contracts through which one or more people named the former “the principal” who appoints another person “agent” to defend the principal’s interests delegating upon the latter certain decision-making power.

These situations are quite frequent in human society. They take place, for instance, when citizens, voters and electors place their political representative in charge of elaborating and enforcing legal norms for a common benefit. Likewise, it is important to mention that this also takes place when shareholders (owners) of a business appoint an independent administrator to manage it with sufficient powers.

An agency relationship always involves the existence of the problem of moral risk; in other words, that possibility that the agent (political manager or corporate manager) seeks particular objectives affecting negatively the main party’s interests which in this case would be the citizen or the shareholder. It can be proven that the problem focused as such allows an analysis of the problems of state and market economic decisions from a unified point of view. There will be a loss of efficiency every time that the costs and damages caused by a decision do not fall upon the individual who made the decision and who usually decides.

As it is well known, some managers of a company or of a government agency can use their decision-making capability to cunningly obtain personal benefits at the expenses of common citizens or shareholders. These benefits may be extra gratifications, large luxury offices, private use of vehicles, corporate credit cards for personal use, promoting subordinates because they are friends or relatives, or they may make extremely risky decisions or decisions which are short-term benefits for the company or government agency, but highly damaging in a long term. They

may also make decisions that could increase their personal power and enable them to elude owners' control, the control of control agencies and of the control of citizens themselves.

The problem is found to a greater or to a lesser extent in any work contract. Workers hired to perform any task will always have certain level of decision-making and a large possibility of evading or eluding control and reducing their effort to the least possible. Control and supervision of workers has a price because it is efficient to hire supervisors. This implies the appearance of an intermediate step of agents since supervisors must be controlled, but it will be efficiency achieved if supervisors have fewer tendencies to evade their duties than workers. There are other systems that promote control agents to control each other which when used excessively leads distrusting environments which limit the possibilities of mutual cooperation and reduce efficiency.

A common solution in large corporations is to associate an agent to business' benefits. Commonly, this type of encouragement to loyalty adopts the form of payment depending on the benefits, stake in the property, or more recently, share purchase options or concessions of rights regarding increasing quotations. These systems, quite frequently used at present to serve as extenuators even though the problem is not eliminated as long as the managers do not own 100% of the business.

The cost of agency relations does not solely fall upon the main party, because an agent may incur in certain costs transmitting information to the principal to gain the principal's trust. In general, when long-term agency relations are established, moral risk reduces; thus, getting greater business efficiency and reducing control costs. If workers or directors want work stability, they do not take advantage of opportunities to gain personal benefits at the expense of the company fearing they may be detected. This is why a sense of belonging is commonly promoted when hiring someone establishing salary complements like seniority, transparent internal promotion systems, rank privileges and other systems incentivizing loyalty and stability.

In the case of the Colombian Government, the "principal" will be the people of Colombia, who hire their rulers, because through their votes they give them the power to efficiently fulfill a Government's basic duties (which means protecting the right to property and to redistribute income for general social welfare). Moreover, they must oversee and promote all the conditions to produce businesses and remunerated employment.

Ever since ancient times, there has been a problem in which agents, in these case public servants, tend to maximize their personal well-being and not the well-being of the country. Think, for instance, of a reform which is essential but politically risky. The result in 99 out of 100 cases, show that public servants will prefer to act conservatively and protect their jobs; even if, it means less payment for society.

The very same thing happens in private businesses. The owners of the capital hire employees of all levels with the aim to maximize net profit (or the EBITDA which is in vogue), but they are also seeking to maximize their personal benefits ranging from a corporate employee who buys a

luxury vehicle that the company does not need but which gives them more status to employees who instead of working close their office doors to sleep, take care of personal matters or play on the computer that has been assigned to them for daily tasks.

## **CONCLUSIONS**

It must be clear to everyone and especially to groups that have stake in a business and business people, that economy and the strategic development of businesses must be based on trust, transparency and conviction in that our system of free enterprise will continue being one of the most efficient and promising in the country. That trust, which is justified, after all, includes technology, teaching in universities that attract human talent from the various regions of Colombia, our workers, employees, producers and farmers who will be able to compete in any of the diverse scenarios of this modern world with their products or services.

Our society, in general, is conscientious of business people's efforts and devotion and compensates hard work and honest ambition, attracting to our shores people from all around the world who share our values. Thus, we can state that Antioquian economy has been for a long time the most creative, productive entrepreneur system that has ever been thought of by any given society, but which we must rescue and empower so that it may last in time.

But, can we be trusting as a result of Antioquian workers and business people's surprising achievements? Because despite what happened in the past going from the economic recess of the country to the brief step of an underground fake economy which evidenced its devastating capability and led us to scenarios where they point at us and we are all judged without taking into account that in this beautiful region in Colombia, there are still many workers and business people who daily defy pessimists and have set up the bases for the recovery of a sustainable economy. Therefore, the time has come for the academic sector to place more interest on economic, social and corporate development, and it must promote among students the capability to produce employment through new businesses that center their operations in good governance practices. Thus, the time has come for Colombian economy to enter into a process or additional type of trust, trusting the character and behavior of our trade leaders.

The situation of SME's, not only in Antioquia, but also in all the rest of Colombia, must be revised in the light of new CG processes, because it is only through these good practices that it will be possible to guarantee our international counterparts that our businesses are transparent, unbiased and trust-worthy to perform economic operations tending towards mutual benefit and the creation of new businesses and better employment.

**Bibliography**

- (OECD), L. O. (1999). Principles of Corporate Governance. . Stockholm:: Stockholm Institute of Transition Economics.
- Act The Sarbanes-Oxley. (2002). ALL organizations, large and small, MUST comply. New York: NY Editions.
- CALA., H. A. (2005). Situation and needs of SME's. SITUACION Y NECESIDADES DE LA PEQUEÑA Y MEDIANA EMPRESA. *Revista electrónica de difusión científica CIVILIZAR* , , 22-36.
- CANO, M. A. (2007). *Corporate Government, Principal Developments of Companies that contribute to the Stock Exchange. GOBIERNO CORPORATIVO Principales Desarrollos en las Empresas que Cotizan en la Bolsa de Valores.* . Medellín: : Universidad de Medellín.
- CHACÓN, P. W. (2001). *Internal Control as a Fundamental Accounting and Control Tool for Organization. El control interno como herramienta fundamental contable y controladora de las organizaciones.* Carabobo: Ediciones litograficas Carabobo - Venezuela.
- CHUN., K. H. (2013). Is Corporate Social Responsibility (CSR) Associated with Tax Avoidance? Evidence from Irresponsible CSR Activities. *The Accounting Review* 88:6 , 2025-2059. .
- CONFECAMARAS. (2009). *Guía Colombiana de Gobierno Corporativo para sociedades cerradas y de familia.* Bogotá: Camara de Comercio de Bogotá.
- DANE, (. S. (2001). *first national survey on micro-businesses for trade, services and industry.* Bogotá: Departamento Administrative Nacional de Estadísticas,.
- DONALD., V. M. (2012). A Broader Perspective on Corporate Social Responsibility Research in Accounting. . *The Accounting Review* 87:3, , 797-806. .
- GARY., F. P. (2015). The Association between Sustainability Governance Characteristics and the Assurance of Corporate Sustainability Reports. AUDITING: A 34:1. *Journal of Practice & Theory*, 163-198.
- Ravichandran K. Subramaniam, S. D. (2016). Liquidity Implications of Corporate Social Responsibility Disclosures: Malaysian Evidence. . *Journal of International Accounting Research* 15:1, , 133-153.
- SOLÍS., A. A. (2002. ). *Support Policies for Small Enterprises in 13 Countries in Latin America. Políticas de apoyo a la pequeña empresa en 13 países de América Latina* . Washington D.C.: McGrawHill.
- TRIPPIER, B. (2008). *State Agencies and Corporate Governance. Empresas del Estado y Gobernabilidad Corporativa.* Londres: Nueva Tecnología de Negocios. .
- YONGTAE., K. M. (2012). Is Earnings Quality Associated with Corporate Social Responsibility?. *The Accounting Review:* , 761-796.
- ZEBALLOS., V. E. (2006). *Obstacles in the Development of Small and Medium Enterprises in Latin America. Obstáculos al desarrollo de las pequeñas y medianas empresas de América Latina.* . Mexico.: Foundation for the Development of Latin America.