

SPECIFICITIES OF CORPORATE GOVERNANCE IN SMALL BUSINESS ENTERPRISES OF UZBEKISTAN

Zufar Ashurov

Doctoral Researcher

Department of Corporate Governance

Tashkent State University of Economics, Uzbekistan

email : zashurov@intal.uz

ABSTRACT

It is commonly known that the corporate governance is a way of management which is intrinsic to the large corporate structures. Today, in Uzbekistan such corporate structures mainly function in the form of joint-stock companies, limited liability companies, additional liability companies, general partnerships, limited partnership where there introduced a governance practice on the basis of corporate governance principles. This paper theoretically investigates the concept of corporate governance in SMEs, and studies the specificities of corporate governance practice in small business enterprises of Uzbekistan. At the end of this paper, the author makes conclusion and gives some recommendations on further improvement of activity of small business enterprises to function as a "corporate" type business entity.

Keywords: *Corporate Governance, SME, Small Business Enterprises, Limited Liability Company, Additional Liability Company, General Partnership, Limited Partnership, Family Enterprise*

INTRODUCTION

At present, a small business plays important role in the economic development of Uzbekistan. Formation of small market structures in all sectors of an economy of the country meets the global economic trends and economic processes, as in all countries of the world a very large number of small enterprises of various profile function in the sphere of small business in practically all sectors. Currently, in the economy of Uzbekistan there operate at same time large and small enterprises as well as there carried out activities based on personal and family labor.

The small business in Uzbekistan, despite a number of advantages, its important role in the economy and numerous measures of state support, remains unattractive for the large investors. This affects the competitiveness of small business enterprises, their survival and growth. Perhaps we need not only quantitative but also qualitative

directions of development of such companies. One of these directions can be the development of corporate governance system or their elements as a factor in improving the quality of business, increasing the company's market value and attracting investment, including foreign one.

It is commonly known that the corporate governance is the system by which companies are directed and controlled (Cadbury, 1992), and it is a way of management which is intrinsic to the large corporate structures such as corporations, holding companies, limited liability companies etc. Today, in Uzbekistan such corporate structures mainly function in the form of joint-stock companies, limited liability companies, additional liability companies, general partnerships, limited partnership where there introduced a governance practice on the basis of corporate governance principles. In addition, the corporate governance principles can be applied within management of small business enterprises in order to ensure the transparent, accountable and responsible business.

According to the Law of the Republic of Uzbekistan "On Guarantee of Freedom of Entrepreneurial Activity" (2012), entities of small business are: 1) individual entrepreneurs (sole proprietor); 2) microfirms with an annual average number of workers employed in the production industries – no more than 20 persons; in the service sector and other non-production industries – no more than 10 persons; in the wholesale, retail trade and public catering sector – no more than 5 five persons; 3) small enterprises with an annual average number of workers employed in light industry, food industry and construction materials industry – no more than 200 persons; in metalworking industry and instrument making industry, woodworking and furniture industries as well as other industrial-production spheres – no more than 100 persons; in mechanical engineering, metallurgy, fuel-energy and chemical industries, sector of production and processing of agricultural products, construction and other industrial-production spheres – no more than 50 people; in science, research services, transportation, communications, services (except insurance companies), trade and catering and other non-production spheres – no more than 25 persons. Based on this legal act, we think that the corporate governance principles can be applied not only in the large companies (as joint-stock company) but also in small business enterprises (except individual entrepreneur) functioning as corporate structures.

The aim of this paper is to theoretically investigate the concept of corporate governance in SMEs, and thoroughly study the specificities of corporate governance practice in small business enterprises of Uzbekistan, and on this basis, to work out the recommendations on further improvement of their activity to function as a full "corporate" type small business enterprise. As in Uzbekistan the SME, in the literal sense of this phrase as "small and medium enterprises", is not used anymore, and it was replaced with the phrase "small business enterprises and private entrepreneurship", for the purpose of this paper a phrase "small business enterprises" will be used.

CORPORATE GOVERNANCE IN SMES: A CONCEPT ANALYSIS

The issue of corporate governance has been a growing area of management research especially among large and listed companies. Some studies regarding corporate governance in SMEs have focused mainly on developed economies (see Eisenberg et al., 1998; Bennett and Robson, 2004). Global literature advocates for the adoption of sustainable corporate governance norms within the SME sector (Dube, Dube & Mishra, 2011). While the relationship between governance and company performance is often stressed within the context of large companies, Hamad (2011) finds that not many of those studies deal with this relationship, in the context of the SME sector in emergent countries and most of the studies that deal with the governance question have largely overlooked this issue, with respect to SMEs.

Many SMEs consider that corporate governance is only relevant to large companies. However, good governance presents major advantages for all companies, especially when raising capital or selling the business (Jaque, 2010). Corporate governance mechanisms may result in greater performance for SMEs as well, if appropriate measures are mandated by the regulators (Abor and Adjasi, 2007). The corporate governance is carried out in medium-sized companies, the scale of business of which is close to the large ones, but in small-sized companies – it is nominal. The main feature of corporate governance in medium business is that the control over all business processes, including corporate governance, is ultimately performed by the owner (Yevseeva M. & Tkachenko I., 2016). SME governance improves small-medium sized firms' performance, for example for ensuring an alternative funding from investors and financial institutions. In many cases, SMEs in form of a limited corporation can adopt

the concept of governance in general such as what large enterprises do (Jaswadi at al., 2015).

Traditionally, corporate governance has been associated with larger companies and the existence of the agency problem. Agency problem arises as a result of the relationships between shareholders and managers. It comes about when members of an organization have conflicts of interest within the firm. This is mainly due to the separation between ownership and control of the firm. Some argue that because SMEs have few employees who are mostly relatives of the owner and thus no separation of ownership and control, there is no need for corporate governance in their operations. Also, the question of accountability by SMEs to the public is non-existent since they do not depend on public funds. Most, especially the sole proprietorship businesses do not necessarily need to comply with any disclosure. Because there is no agency problem, profit maximization, increasing net market value and minimizing cost are the common aims of the members. Members also disregard outcomes of organizational activities that will cause disagreement. They are rewarded directly and as such need no incentives to motivate them. Thus disagreement does not exist and hence no need for corporate governance to resolve them (Abor and Adjasi, 2007). In this regard, it is important that SMEs form good relationships with their customers, suppliers, employees and society in general.

Another point of view that the conception of shareholders for large companies must be extended to SMEs. Shareholders invest but do not want to run or are incapable of running the company, they provide the capital and the risk appetite but they want people with specialized knowledge to manage the business, so they appoint an agent- the board of directors to oversee their investment on their behalf. The board is the agent of all shareholders and stakeholders. Family owned businesses and SMEs should imitate their counterparts of large companies and appoint a board to oversee their investment (Crauford, 2007). Outside directors can add value to SMEs by sharing their wealth of experience with their top management team members, thus as the ratio of outside directors increases, their diverse experiences, skills and capabilities will augment those of SME management (Zahra et al, 2007).

There are pros and cons for implementing corporate governance principles in SMEs. Many advantages of implementing corporate governance principles can be mentioned. Although corporate governance has many advantages for the SMEs, there

are also costs. For example, having an external audit and independent board members are costly, especially for the SMEs. Advantages of corporate governance are received in the middle-term but costs are assumed in the short-term. This fact about cost makes the implementation of corporate governance principles difficult in SMEs (Gunaya G.Y., and Apakb S., 2014). Calculating dollar cost of corporate governance is difficult for firms of all sizes (Chittenden, Kauser, and Poutziouris 2002). Clarke and Klettner (2009) argue in their study that implementation of corporate governance principles have a significant dollar cost for firms of all sizes. Besides, they argue that there is 25% more time cost for the large-sized firms. Time cost is even more than 25% for the SMEs. Yet more, time cost of corporate governance is more emphasized than dollar cost in SMEs in their study. As a result, utility-cost analysis must be made by SMEs to implement corporate governance principles in their firms.

Generally, SMEs should have simpler governance structures compared to larger firms. They do not have complex systems, mostly are family controlled but may still be able to have good governance (Mahzan, and Chia Meng Yanb, 2015). Several studies have shown that SMEs do not necessarily need to have the same corporate governance framework as the one adopted by public listed companies (Yacuzzi, 2005; Liang and Li, 1999; Chhaochharia et al., 2004).

There are some points of view regarding good corporate governance in SMEs. Some authors argue that accountability, social responsibility, transparency and fairness are basic requirements which are related with good corporate governance structure. In order to have a good corporate governance structure, SMEs are required to make adjustments in areas such as information and transparency, innovation, performance and risk evaluation and auditing (Gunaya G.Y., and Apakb S., 2014). Some practitioners advice their "ad hoc" approaches on this matter. Jaque (2010) argues that any company can develop good corporate governance practices. The key is to understand the foundations of good governance and how these will apply to your company. Therefore, he advices seven key concepts of good governance in the SMEs: 1) delegation of authority; 2) check and balances; 3) professional decision-making; 4) accountability; 5) transparency; 6) conflict of interests; 7) aligning incentives (Jaque, 2010). Some advice that a company code for good governance should be set up which could become a key component in sustainable development and value enhancement of the company, and mention cultural and managerial continuity, creating clear management structures,

business and management instruments and sustainable corporate financing as the individual building blocks of company specific corporate governance (Kohler Deimel, 2016). Other believes that good corporate governance practice in SMEs is more than just a set of guidelines and reporting standards, it is a corporate culture and attitude that needs to be educated across the entire organization from top to bottom, and identifies six key elements of good corporate governance for SMEs that are: 1) discipline; 2) transparency; 3) independent; 4) accountability; 5) fairness; 6) social responsibility (Lee, 2016).

Having extended the corporate governance principles to the SME sector, some countries even have developed the guidelines for corporate governance in SME. For example, in the UAE – The Corporate Governance Code for Small and Medium Enterprises (2011), in Hong Kong – Guidelines on Corporate Governance for SME in Hong Kong (2009), in Australia – Corporate Governance Toolkit for small and medium enterprises (2005).

From the concept analysis above, it can be argued that corporate governance principles are advantageous for the SMEs but not necessarily applicable to them as implementing corporate governance principles in the SMEs is related to some disadvantages. In the next sections, the main of types of business entities in Uzbekistan will be overviewed and the current status of corporate governance in Uzbek small business enterprises, in particular will be discussed.

OVERVIEW OF TYPES OF BUSINESS ENTITIES IN UZBEKISTAN

In Uzbekistan the legal businesses can function in the form of Joint-Stock Companies, Limited Liability Company, Additional Liability Company, Business Partnership (General Partnership and Limited Partnership), Family Enterprise, Private Enterprise and Sole Proprietor. As they are the main types of business entities functioning in the country, further we will briefly examine and compare them for that whether they are small business enterprises and corporate structures where the elements of corporate governance are found. The main characteristics of these business entities are compared in the Table 1.

According to the Law “On Joint-Stock Companies and Protection of Shareholders’ Rights” (2014) the *Joint-Stock Company (JSC)* is a commercial organization, authorized fund (authorized capital) of which is divided into a certain number of shares

certifying the rights of shareholders in relation to the company. The JSC is a legal entity and has its own property, including property transferred to its authorized fund (authorized capital) accounted for on its own balance sheet; it may acquire and exercise property and personal non-property rights, bear responsibilities, sue and be sued in the court.

According to the Law "On Limited and Additional Liability Companies" (2001) the *Limited Liability Company (LLC)* is a business entity established by one or more persons, authorized fund (authorized capital) of which is divided into stakes of certain sizes determined by the company's constituent acts. Participants of the LLC are not responsible for its liabilities and bear the risk of losses associated with activities of a company, within the value of their contributions. Participants of the LLC, who did not fully make contributions, are jointly responsible for its liabilities to the value of the unpaid portion of the contribution of each member of a company. The *Additional Liability Company (ALC)* is a business entity established by one or more persons, authorized fund (authorized capital) of which is divided into stakes of certain sizes determined by the constituent acts. Participants of the ALC jointly bear subsidiary responsibility for its liabilities with their property in the same amount to the value of their contributions determined by the company's constituent acts. At the time of bankruptcy of one of the participants, his/her responsibility for the ALC's liabilities is distributed among the remaining participants in proportion to their contributions, unless another procedure for the distribution of responsibility is not stipulated by the company's constituent acts.

According to the Law "On Business Partnerships" (2001) the *Business Partnership (BP)* is a commercial organization with authorized fund (authorized capital) divided into stakes (contributions) of the founders (participants), in which the founders (participants) or some of them take a personal part in conduction of business activity on behalf of such partnership. The BP is established in the form of General Partnership or Limited Partnership. The *General Partnership (GP)* is a partnership where its participants (general partners), in accordance with the agreement made between them, are engaged in business activity on behalf of the partnership and are responsible for its liabilities with all property belonging to them. A person may be a participant of only one GP. The *Limited Partnership (LP)* is a partnership which, along with the participants conducting business activity on behalf of the partnership and responsible for the partnership's liabilities with all their assets (general partners), has one or more participants (contributors, limited

partners) who bear the risk of losses associated with the activities of the partnership within the amount of their contributions, and who do not take part in conduction of business activity. These types of business entities are not popular in Uzbekistan.

According to the Law "On Family Entrepreneurship" (2012) the *Family Enterprise (FE)* is a small business entity established by its participants on a voluntary basis on the basis of the common property in shared or joint ownership of family members as well as the property of each of the participants of family business for production and sale of goods (works, services). Activities of the FE are based on personal labor of its participants. The FE is one of the new legal forms of business entities in Uzbekistan. This type of business entity is experienced in other foreign countries in the form of family partnership.

According to the Law "On Private Enterprise" (2003) the *Private Enterprise (PE)* is a commercial organization established and managed by the owner – one physical person. The PE has its own property, may on its own behalf acquire and exercise property and personal non-property rights, bear responsibilities, sue and be sued in the court. The owner of the PE in accordance with the law bears subsidiary responsibility with its property for the liabilities of the PE if there are insufficient assets of the enterprise.

According to the Law of the Republic of Uzbekistan "On Guarantee of Freedom of Entrepreneurial Activity" (2012) the sole proprietorship is conduction of business activity by the physical person (Sole Proprietor) without establishing a legal entity. The Sole Proprietorship is carried out by the *Sole Proprietor (SP)* independently on the basis of property belonging to him/her by the right of ownership as well as due to other proprietary rights allowing ownership and/or use of the property. The SP has the right to hire workers; he/she deals with business activity, acquires and exercise rights and obligations under his/her name.

From the examination above and comparison given in the Table 1, we may conclude that the business entities such as the JSC, LLC, ALC, GP, LP are the corporate structures which can be directed and controlled under the corporate governance principles. Though the JSC is a corporate structure but cannot be attributed to a small business enterprise as it is mostly referred to a large business entity and its activity related with a huge amount of capital and big number of workers. The FE is indeed a small business entity but it has some elements of corporate governance, so we refer it to "quasi" corporate structure. Although the PE and SP are also small business entities but,

in our opinion, the corporate relations and elements of corporate governance are not found in their activity as the owner of the PE and SP solely manages the enterprise as a manager and they do not reflect the essence of corporate governance. Therefore, in our next chapters we will study the specific features of corporate governance in those business entities of Uzbekistan which are considered as corporate structure and attributed to small business enterprises that are LLC, ALS, GP, SP, and FE.

CORPORATE GOVERNANCE PRACTICE IN UZBEK LLCs AND ALCS

The corporate governance in both the LLC and ALC is carried out mainly by the General Meeting of Participants, Supervisory Board and Executive Body. The General Meeting of Participants is the supreme governing body of the company. The specificity of corporate governance in small business enterprise in the form of LLC and ALC is that the Supervisory Board may or may not be established in such companies, and its credentials are stipulated in the company's charter. To the credentials of the Supervisory Board there may be included formation of the company's executive bodies, early termination of their powers, creation of Internal Auditing Service and appointment of its staff, solving of issues related to preparation, convening and holding of General Meeting of Participants.

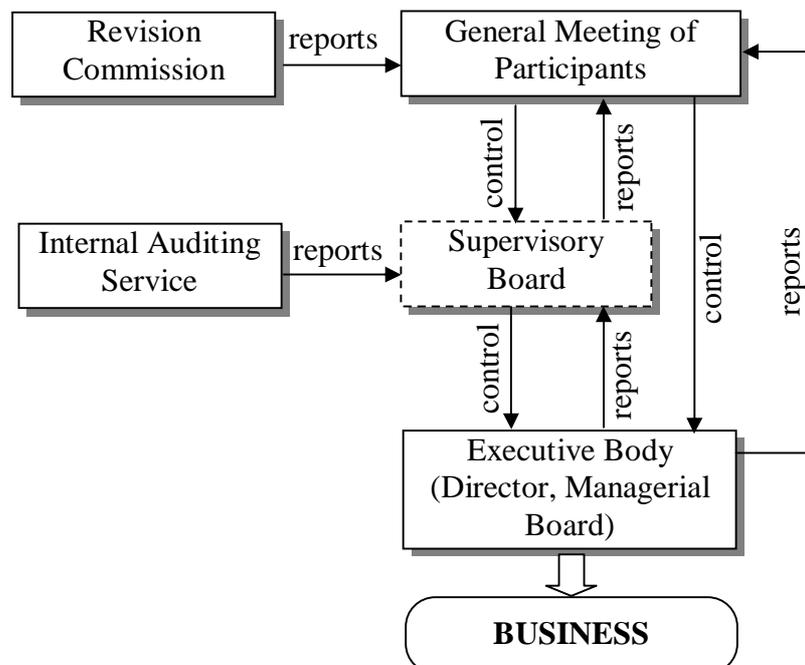
Also, management of day-to-day activity of the company is carried out by either one-man executive body (Director) or by collective executive body (Managerial Board). The company's Director is elected by the General Meeting of Participants for the term specified in the company's charter and is accountable to it or to the Supervisory Board, if its formation is provided for in the company's charter. The Director mainly manages the company's operating activities, represents its interests and makes transactions, concludes and terminates labor contracts with employees of the company etc.

In small business enterprises in the form of LLC and ALC there can be established the corporate control bodies. The corporate control is usually carried out by the Revision Commission or external auditing organization as well as, in some cases, by the Internal Auditing Service. In companies with more than 15 participants, formation of the Revision Commission is obligatory. The company's Revision Commission is elected by the General Meeting of Participants for a term determined by the company's charter. The Revision Commission is accountable to the General Meeting of Participants, and carries out audit of financial and economic activity of the company on the results of

operations for the year or other period, mandatorily inspects the company's annual reports and balance sheets prior to their approval by the General Meeting of Participants. Functions of the Revision Commission may be performed by the auditing organization which does not share property interests with the company, is not related with members of the Supervisory Board and Executive Body of the company.

In the companies where book value of assets is over one billion sums there created the Internal Auditing Service. The Internal Auditing Service is created and its employees are appointed by the Supervisory Board. The Internal Audit Service is accountable to the Company's Supervisory Board, and carries out control and assessment of the work of executive body through inspections and monitoring of their compliance to the legislation, constituent and other acts, ensures completeness and accuracy of accounting and financial reporting and safety of assets as well as provides compliance with the legislative requirements on corporate governance. In the corporate governance system the Revision Commission and Internal Auditing Service serve in ensuring the information disclosure and transparency in the company. The corporate governance framework in the LLC and ALC is visually illustrated in the Figure 1.

Figure 1. Corporate governance framework of LLC and ALC in Uzbekistan
Source: created by the author on the basis of national legislation

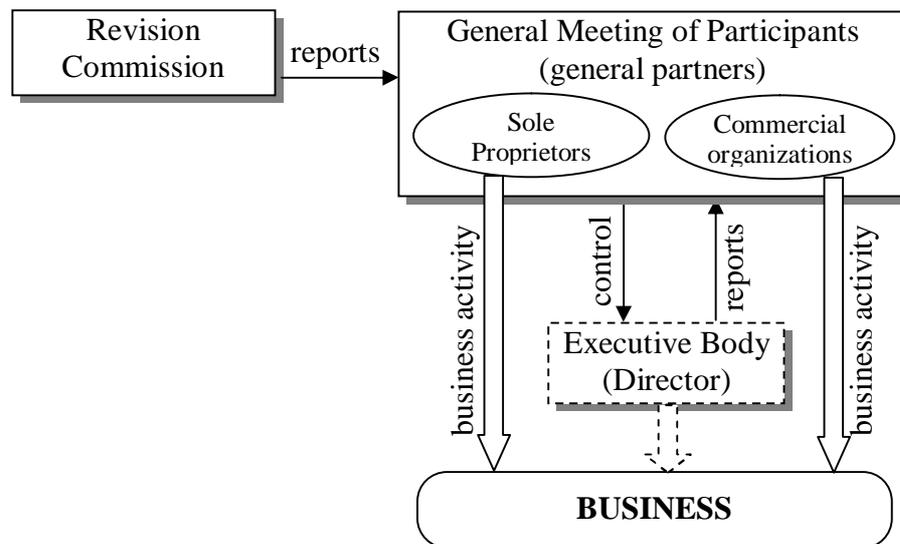


CORPORATE GOVERNANCE PRACTICE IN UZBEK GPs and LPs

The corporate governance in small enterprises in the form of GP is also carried out by the General Meeting of Participants, a supreme governing body of the partnership, and the Executive Body. In the system of corporate relations the General Meeting of Participants determines the basic directions of activity of the partnership, carries out reorganization and liquidation of the partnership, makes amendments and additions in the memorandum of association, makes decision on distribution of profit (loss) of the partnership between its participants, approves the annual reports and annual balance sheets etc.

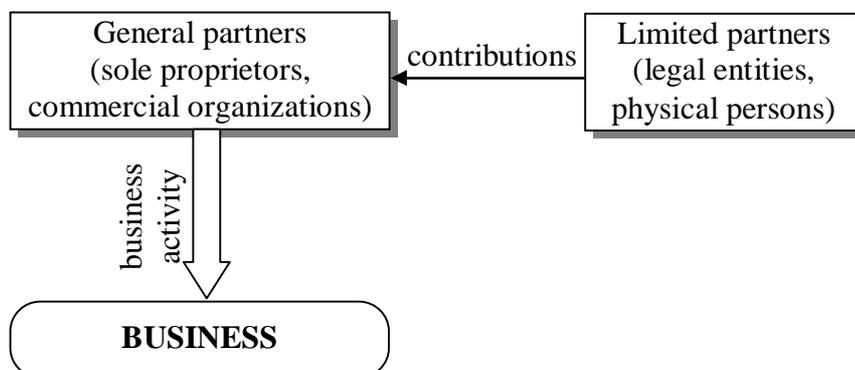
The main specificity of corporate governance in the small business entities in the form of GP is that management of partnership activities is carried out by common agreement of all its participants, and the decisions related with business activity are taken by majority votes of its participants. Each member of the partnership has right to act on behalf of the partnership, and when jointly conducting business by its participants, for making each transaction an agreement of all participants of the partnership is required. In order to manage the day-to-day activities of the partnership the memorandum of association may provide for formation of executive body of the partnership. Also, to carry out control over financial and economic activity of the partnership the memorandum of association of the partnership may provide for formation of Revision Commission. In companies with more than 15 participants, formation of the Revision Commission is obligatory. Functions of the Revision Commission may be performed by the auditing organization which does not share property interests with the partnership and its participants. The corporate governance framework in the GP is visually illustrated in the Figure 2.

Figure 2. Corporate governance framework of GP in Uzbekistan
Source: created by the author on the basis of national legislation



The corporate governance of the LP is carried out by the general partners. The procedure of management and administration of the LP by its general partners is established by them according to the procedures of management and administration of the GP. The limited partners (contributors) are not entitled to participate in management and conducting business activity of the partnership, act on its behalf, except by proxy. The limited partners do not have the right to dispute the actions of the general partners on management and conducting business activity of the partnership. The corporate governance framework in the LP is visually illustrated in the Figure 3.

Figure 3. Corporate governance framework of LP in Uzbekistan
Source: created by the author on the basis of national legislation



CORPORATE GOVERNANCE PRACTICE IN UZBEK FAMILY ENTERPRISES

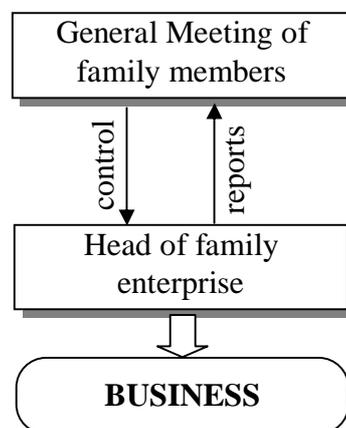
Although the FE is a small business entity, we deem that it can be directed on the basis of corporate governance, as some elements of corporate governance are found in the process of conducting business activity in the FE. Particularly, the FE has the supreme governing body that is the General Meeting of family members and Head of family enterprise as an executive body.

The General Meeting of family members of the FE makes amendments and additions in the constituent agreement of the FE, elects the Head of family enterprise, determines the types of activities of the FE, determines the size of authorized capital makes changes to its size, reviews the annual report of the Head of family enterprise on financial and economic activities of the family business, makes decision on the FE's profit distribution in accordance with the constituent agreement, makes decision on big transactions with the family property.

The FE is represented by the Head of family enterprise in relations with legal entities and physical persons. One of family members can be a Head of family enterprise whom all participants of family business unanimously provide the right participate in business activity on their behalf. In the case of temporary disability or long-term absence of the Head of family enterprise, he/she may, in consultation with the rest members of family business, authorize one of them to temporarily perform his/her duties. The corporate governance framework in the FE is very simple and visually illustrated in the Figure 4.

Figure 4. Corporate governance framework of Family Enterprise in Uzbekistan

Source: created by the author on the basis of national legislation



CONCLUSION

From the research conducted and ideas put in this paper we can conclude that the framework for corporate governance in small business enterprises in Uzbekistan is legally set up but they are not yet “matured” enough to corporate governance and to the issue of separation of ownership and control functions, in principle. In the small business enterprises, where there is corporate governance, it is often underestimated an institution such as the supervisory board who often performs only advisory function, while it could be responsible for monitoring of company’s activities and top management, appraisal of their work, assistance in elaboration of development strategies of a company and control of its implementation, development of risk management system, internal controls and etc.

We emphasize that implementation and execution of corporate governance norms allows companies not only to optimize internal business processes and prevent conflicts by organizing properly the relationship between stakeholders, but also to attract additional investment to the activity of the company.

However, in order to further improve the corporate governance as well as activity of small business enterprises in Uzbekistan to function as a full “corporate” type business entity, we would recommend that a special document so-called “Code of good corporate governance in Uzbek small business enterprises” should be worked out and approved at the governmental level and should be distributed for observance by the small business companies. In addition, in order to provide a good corporate governance in small business enterprises, rules of procedure and management should be set up where duties should be clearly delegated and those with responsibility should be allowed to make certain decisions, so that managers are not merely the recipients of orders, but can contribute and practice running the business. This would allow information to be processed independently and prepared within a management system so that it is passed to top management in a clear, concise form.

Small business companies should consider establishing an internal audit function, as an effective internal audit function can help provide assurance that there are appropriate corporate governance processes in place. Internal audit’s primary responsibility should be to ensure that the risk management approach is being followed throughout the company, and that appropriate internal controls are in place and are operating effectively.

Regarding improvement of corporate governance in family-business companies, we think that a family governance institution with written procedures should be established to facilitate effective communication and coordination between family members and the company. In later generations as the family and business get more complex, families, in our opinion, should consider establishing a family governance institution such as a "family council", which institutionalizes cooperation in large families and serves as the link between the family and the business. It should have clear written procedures reflecting its role as a forum for keeping all family members informed of developments in the business and allowing them to voice their opinions.

REFERENCES

- Abor, J.Y. and Adjasi, C.K.D. (2007). *Corporate Governance and the Small and Medium Enterprise Sector: Theory and Implications*, Corporate Governance International Journal of Business in Society, Vol. 7, No.2, pp.111-122.
- Bennett, R.J. and Robson, P.J.A. (2004). *The role of board of directors in small and medium-sized firms*, Journal of Small Business and Enterprise Development, Vol. 11 No. 1, pp. 95-113.
- Cadbury, A. (1992). *The Financial Aspects of Corporate Governance (Cadbury Report)*, Report of the Committee on the Financial Aspects of Corporate Governance, Burgess Science Press, London.
- Chhaochharia, Vidhi and Yaniv Grinstein (2004). *Corporate Governance and Firm Value – The Impact of the 2002 Governance Rules*", August (downloaded from <http://ssrn.com/abstract=556990>).
- Chittenden, F., Kauser, S. and Poutziouris, P. (2002). *Regulatory burdens of small business: A literature review*, Manchester Business School.
- Clarke, T. and Klettner, A. (2009). *Governance issues for SMEs*, Journal of Business Systems, Governance and Ethics, 4(4), pp.23-40.
- Corporate Governance Toolkit for small and medium enterprises (2005). CPA Australia, 2nd edition.
- Crauford, N. (2010). *Small companies could gain a lot by adopting formal governance*, Dominion Post C2.

- Dube, I., Dube, D. & Mishra, P. (2011). *Corporate Governance Norm for SME*. Journal of Public Administration and Governance. Vol. 1, No. 2.
- Eisenberg, T., Sundgren, S. and Wells, M.T. (1998). *Larger board size and decreasing firm value in small firms*, Journal of Financial Economics, Vol. 48 No. 1, pp. 35-54.
- Guidelines on Corporate Governance for SME in Hong Kong* (2009). The Hong Kong Institute of Directors Limited, 2nd edition.
- Gunaya G.Y., and Apakb S. (2014). *Comparison of public and non-public SMEs' corporate governance strategies in Turkey*, Procedia - Social and Behavioral Sciences, Vol. 150, pp. 162 – 171.
- Hamad, S.B. (2011). *The SMEs Governance Mechanisms Practices and Financial Performance: Case of Tunisian Industrial SMEs*, International Journal of Business and Management Vol. 6, No. 7; July 2011.
- Jaque, A. (2010). *Corporate Governance for Small-to-Medium Enterprises (SMEs)*, [Online]. Retrieved from: <http://www.swaab.com.au/Publications/Publications/Corporate-governance-for-SMEs>
- Jaswadi, Mohammad Iqbal, Sumiadji (2015). *SME Governance in Indonesia – A Survey and Insight from Private Companies*, Procedia Economics and Finance, Vol. 31, pp. 387 – 398.
- Kohler, J. and Deimel, M. (2016, February 6). *Corporate and Good Governance in German SME*, [Online]. Retrieved from: http://www.tefen.com/insights/industries/General_Manufacturing/corporate_and_goodgovernance_in_german_smes
- Law of the Republic of Uzbekistan “On Business Partnerships” (2001), web source: www.lex.uz
- Law of the Republic of Uzbekistan “On Family Entrepreneurship” (2012), web source: www.lex.uz
- Law of the Republic of Uzbekistan “On Guarantee of Freedom of Entrepreneurial Activity” (2012), web source: www.lex.uz
- Law of the Republic of Uzbekistan “On Joint-Stock Companies and Protection of Shareholders' Rights” (2014), web source: www.lex.uz
- Law of the Republic of Uzbekistan “On Limited and Additional Liability Companies” (2001), web source: www.lex.uz

- Lee, P. (2016, February 6). *Corporate governance in SMEs*. [Online]. Retrieved from: <http://www.hkbusinessawards.com/content/corporate-governance-smes>
- Liang, Neng and Joanne Li (1999). *Board Structure and Firm Performance: New Evidence from China's Private Firms*, Paper presented at the Academy of Management Annual Conference, Chicago, USA, August 7-10.
- Mahzan, N., Chia Meng Yanb (2014). *Harnessing the benefits of Corporate Governance and Internal Audit: Advice to SME*, Procedia - Social and Behavioral Sciences, Vol. 115, pp. 156 – 165.
- The Corporate Governance Code for Small and Medium Enterprises* (2011), An Agency of the Department of Economic Development, Government of Dubai.
- Yacuzzi, Enrique (2005, June). *A primer on governance and performance in small and medium-sized enterprises*, (downloaded from <http://ssrn.com/abstract=998589>).
- Yevseeva, M., Tkachenko I. (2016, February 6). *Specifika korporativnogo upravleniya v kompaniyakh malogo I srednego biznesa [Specific Features of Corporate Governance in the Companies of Small and Medium Business]*, [Online]. Retrieved from: http://arbir.ru/articles/a_2503.htm
- Zahra, S.A. (2008). *Being entrepreneurial and market driven: Implications for company performance*. Journal of Strategy and Management; 1 (2); 125-142.

Table 1. The main characteristics of the different types of business entities in Uzbekistan

Legal forms	Joint-Stock Company	Limited Liability Company	Additional Liability Company	General Partnership	Limited Partnership	Family Enterprise	Private Enterprise	Sole Proprietor
Names in national language	Aksiyadorlik jamiyati (AJ)	Mas'uliyati cheklangan jamiyat (MChJ)	Qo'shimcha mas'uliyatli jamiyat (QChJ)	To'liq shirkat (TSh)	Kommandit shirkat (KSh)	Oilaviy korxonona (OK)	Xususiy korxonona (XK)	Yakka tartibdagi tadbirkor (YaTT)
Legal act regulating the activity of business entity	Law "On Joint-Stock Companies and Protection of Shareholders' Rights" (2014)	Law "On Limited and Additional Liability Companies" (2001)	Law "On Limited and Additional Liability Companies" (2001)	Law "On Business Partnerships" (2001)	Law "On Business Partnerships" (2001)	Law "On Family Entrepreneurship" (2012)	Law "On Private Enterprise" (2003)	Law "On Guarantees of Freedom of Entrepreneurship" (2012)
Main features	⇒ Legal entity ⇒ Considered as a corporate structure ⇒ Shareholders are not responsible for the company's liabilities and bear the risk of losses associated with its activities, within the value of their shares	⇒ Legal entity ⇒ Considered as a corporate structure ⇒ Participants are not responsible for company's liabilities and bear the risk of losses associated with activities of a company, within the value of their contributions	⇒ Legal entity ⇒ Considered as a corporate structure ⇒ Participants jointly bear subsidiary responsibility for company's liabilities with their property in the same amount to the value of their contributions	⇒ Legal entity ⇒ Considered as a corporate structure ⇒ Participants (general partners) are engaged in business activity on behalf of the partnership and are responsible for its liabilities with all property belonging to them	⇒ Legal entity ⇒ Considered as a corporate structure ⇒ participants (limited partners) bear the risk of losses associated with the activities of the partnership within the amount of their contributions, and do not take part in conduction of business activity	⇒ Legal entity ⇒ "Quasi" corporate structure ⇒ Members bear subsidiary responsibility with their own property for the liabilities of family enterprise at insufficiency of the enterprise property	⇒ Legal entity ⇒ Not a corporate structure ⇒ Owner bears subsidiary responsibility with his/her property for the liabilities of private enterprise at insufficiency of the enterprise property	⇒ Not a legal entity ⇒ Not a corporate structure ⇒ Sole proprietor acquires and exercises rights and obligations under his/her name. ⇒ Sole proprietor is solely responsible for his/her liabilities
Minimum capital	400,000 US dollars	40 x minimum wage **	40 x minimum wage **	50 x minimum wage ****	50 x minimum wage ****	10 x minimum wage *****	Decided by the owner	None
Number of owners	One and more	1 to 50	1 to 50	Not less than 2	Not less than 2	Not less than 2	One	One

Governing bodies	⇒ General meeting of shareholders ⇒ Supervisory Board ⇒ Executive body (director or managerial board)	⇒ General meeting of participants ⇒ Supervisory Board (optional) ⇒ Executive body (director or managerial board)	⇒ Same as Limited Liability Company	⇒ General meeting of participants ⇒ Executive body (optional)	⇒ Same as General Partnership but managed by general partners	⇒ General meeting of family members ⇒ Head of family enterprise	None (managed by the owner)	None (managed by the owner)
Control bodies	⇒ Revision Commission ⇒ Internal auditing service (created if the book value of assets is more than 100,000 x minimum wage) * ⇒ Corporate consultant (optional)	⇒ Revision Commission (optional but obligatory if the company has more than 15 participants) ⇒ Internal auditing service (created if the book value of assets is more than 1 bln. UZS) ***	⇒ Same as Limited Liability Company	⇒ Revision Commission (optional but obligatory if the partnership has more than 15 participants)	⇒ Same as General Partnership	None	None	None
Attribution to small business enterprise (yes/no)	No	Yes (if a number of worker don't exceed the specified quantity)	Yes (if a number of worker don't exceed the specified quantity)	Yes (if a number of worker don't exceed the specified quantity)	Yes (if a number of worker don't exceed the specified quantity)	Yes	Yes	Yes

Source: compiled by the author on the basis of national legislation

Notes:

* - as of 01.01.2016 it is 13 bln. UZS or 4.6 mln. USD

** - as of 01.01.2016 it is 5.2 mln. UZS or about 1854 USD

*** - as of 01.01.2016 it is about 355.8 thousand USD

**** - as of 01.01.2016 it is 6.5 mln. UZS or about 2317 USD

***** - as of 01.01.2016 it is 1.3 mln. UZS or about 463 USD

