

## FINANCIAL MANAGER DECISIONS IN SMALL AND MEDIUM TUNISIAN FIRMS

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### Abstract

The agency framework has shifted research in the theory of finance from the traditional quantitative analysis towards a richer analysis that incorporates the behavioural aspects. In this paper we implement an exploratory analysis in order to pick up the behaviour of the managers of SMALL AND MEDIUM FIRMS (SMF) in financial decisions making. An Important finding in our research is that the traditional Modigliani and Miller framework cannot be merely translated to analyse the financing decision in a context of asymmetric information and agency conflicts among the different corporate actors. Empirical evidence is performed on a sample of Tunisian SMF.

**Keywords:** Governance, financial, behavioural, decisions, SMF

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### Introduction

The particular importance attached to the corporate governance and these mechanisms resulted in multiple initiatives, aiming establishing and at explaining “the best practices” of corporate governance. The objective of these practices is to ensure the survival of the company through operations of development and growth, to avoid the accounting scandals and the problems of bankruptcy of several SME and to guarantee that it is able to create value for the owners. The object of the study is to present the **financial manager problems in small and medium Tunisian firms (SMF)** such as: *agency conflict, informational asymmetry, and failure problems. The widening of this article is done through the study of a whole of factors and assumption relating to the governance mechanisms of the leader of SME. This unit makes it possible to study their implications on the financing decisions of SMF which remain still particularly vast and complex, concealing irresolute questions in addition,*

A study of the control mechanisms of the leaders and financial decisions of SME is not the algebraic sum of a certain number of elements taken in an isolated way: it is the reflection of a whole in coherence and the interdependence between these elements plays a determining part.

The widening of our fields of analysis is done through the study of a whole of factors and assumptions. This unit allows `studying qualities of the leaders of SME the managerial property and the other tools for control of the opportunism of the leaders of SME and their implications on the decisions of financing. Tunisian SME.

For this we try to rise starting from the result of our investigation, the characteristics of the leader their implication into the decisions of financing of SME.

This article will be divided into three sections. The first part is devoted to the study through a review of the literature the characteristics of leaders of SME and specific financial problems of SME and their implications on the practices of governorship of SME. The second part, we expose the assumptions of research, the description of the investigation and methodology of work. And the third part describes the results like their interpretations.

### 1. Literature review

The relevant question that interests an important number of researchers on the theory of the finance is whether modern approach of finance can be extended to be applied to SMALL AND MEDIUM-SIZE FIRM Sand to what extend it can differ. The objective of this study is to present new interpretations and problems of financial management that are frequently met by SMF. Agency problem, information asymmetry and the fiscal frame that can be considered when we deal about the analysis of the global financial behaviour of SMF.

A study of the financial behaviour and the financial decisions of SMF is not merely an algebraic sum of a certain number of elements taken or studied in a different and isolated way; it is rather the reflection of a set of elements that display interdependency and coherence in their interaction within a global system.

Several studies have been devoted to examine the issue. In an exploratory study, Cooley and Edward [1983] and Donchels et al. [1987] have shown the evidence that American and Belgian SMF. for the

most important financial objective of the majority of the sample is the maximization of net profits, while the second general objective of managers concerns the financial autonomy.

Other analysis studies the relation size - capitalization as well as relation profitability - debts of SMF., it is notably the case of research made by Jean Marc Suret [1995].

It seems that financial characteristics of the average firm policy are considered as the main object of numerous studies. We notice the seminal contributions of Elijah Brewer and Hesna Genay [1995].

In this paper we extend the analysis through setting additional factors and scientific hypotheses. We try to study their implications in the financial behaviour and the financial decisions of Tunisian SMF..

To attain this objective we attempt to reveal from the results of exploratory investigation the behaviour of the decision maker regarding investment and financing decisions.

It seems urgent in the first stage of this paper to formulate adapted and coherent criteria of appreciation that corresponds to the existing realities. In order to attain this objective we try, in a second stage, to highlight certain models that seem to be more complete and reasonable in assessing the behaviour of the financial manager in his process of decision-making. We tackle the Tunisian SMF. to validate our models.

### **1.1 Specific problems of financial management: case of small and medium-sized firm**

#### **1.1.1 Agency problem**

An agency relation as defined by Desbrieres P and P. Dumontrier, [1989] is a contract by which a principal claim from an agent to act in his interest. An agency problem arises whenever the market act in its own interest at the expense of the obligations specified by the initial contract. The two main agency relations frequently reported in corporate financial literature are relative to contracts relating creditors to shareholders, on one hand, and contracts relating shareholders and managers, on the other hand.

SMF can be identified by the personal responsibility of the managers, the personal or domestic property of social patrimony, the flexibility, and the incapacity of the systems of management, the human size and the weak autonomy in the innovation and the mastering of the industrial, commercial and financial choices. Given the used problem, the annexation of these criteria allows to characterize SMF. according to the theory of agency and its incidence on the financial policy of the financial responsible, in particular, on the financial policy. Indeed, the capital of SMF. is hold by a number of shareholders who frequently belong to the same family.

According to the results of the study made by ABID.F and B. Hamad. [1999], we notice that more than 85 % of the managers possess the majority of capital and that only 7 % of SMF. are managed by an outsider. The fact that a large part of investigated SMF (about 88 %) adopts legal form private fir; or limited firm does not have to make illusion. It is in fact about a personal or domestic firm hidden under form of companies of capital. Besides, the majoritarian shareholder that is the main owner of the firm holds a dominating part in the capital of the firm.

Thirdly, SMF. are characterized by the difficulty to give or acquire their actions, afterward, due to the non-existence of an organized financial market which insures their deals.

These three solely characteristics of SMF. namely: concentration of the capital between the hands of the manager, dominating role of the majority of shareholder in the management, the control and the non - existence of a developed secondary market all these widen the problem of agency for SMF.

At the beginning, they allow organizational alternative forms such as interdependence between the personal or domestic character of the property and the management of the firm. Indeed, the manager who, by hypothesis and from an economic perspective, looks for the maximization of his function of utility, is led to practise various arbitrages. This involves its consumption, its personal patrimony and social patrimony so that its choices are not mostly corresponding to those that would have been operated if the objective was to maximize the value of the firm. It has to arbitrate in particular between the increase of social patrimony, by loosening a substantial result and its takings, although they appear under shape of payments or not pecuniary advantages. Besides, it is easy to demonstrate certain recent measures which can have an inverse incidence; it is the case of the levy of overheads. Such behaviour of the manager is not quires to resort to the external financing, either in case of growth or to insure the continuance of the firm. This problem can have a major implication on the choice of the financial structure by the manager of SMF..

The resolution of the problem of agency is relatively more expensive for SMF.. This is applicable to the large companies. Indeed, SMF. try to find alternatives to resolve agency problems: to make a decision of opening of the stocks or to resort to debts. In the first case, this decision engenders costs: residual losses which are due to the lack of information; costs which are connected to the establishment of the contract; cost of control which is advisable to minimize in order to reach an acceptable contract accepted by two parties. Because of less diversified activities, SMF. undergo a superior exploitation risk; the agency relation connected to the opening of equity capital has a very particular character. In the case of debts, this measure requires a cost, which is raised to insure reliable relation between SMF. and suppliers.

### 1.1.2 Information

We deal here with a relevant phenomenon frequently met by SMF., which is the information asymmetry. This aspect has given rise to rich developments in modern financial theory. In this spirit, we notice contributions of H. Le land and D. Pyle [1977], Ross [1977] within the framework of the financial structure and S Bathacharya [1980] on the dividend policy. It is important to note that in the development of the sequential signaling approaches in resolving the problem of choice between debts and stockholders' equity, within the framework comparable to that well analyzed by Meyers and Majluf [1984] or still by S Ang [1996]; this phenomenon seems to be more pointed in SMF. than in the large firms and has given rise to several problems for various causes:

-The first problem of asymmetric information can cause fixed costs during the collection of information. The manifestation of these anomalies can be translated firstly by a lack of stimulus to collect information. Secondly, it can be the issue of a scarcity of internal and/or external specialists to make a deep diagnosis of the firm to face an environment characterized by the non-existence of a developed financial market.

-The second problem of asymmetry of information concerns the quality of data generated by SMF.

This problem is due to the fact that the majority of the administrators are incapable to supply relevant and reliable data. Besides, the general deterioration of financial structures has casted a enormous doubt on the validity of the most accepted standards (for example ratio Stockholders' equity / debts) and has disentangling the least ambiguous signals.

### 1.1.3 The bankruptcy study

If the firm can go bankrupt, it is necessary to integrate into the existence of costs of bankruptcy Modigliani and Miller's analysis. The consideration of these costs implies that an optimal indebtedness ratio can be determined. Indeed, this ratio is reached as soon as fiscal advantages, are linked a marginal increase of the debt are compensated which the costs of financial distress which engenders.

This reasoning, which is notably resumed by Stiglitz [1969], for by is in theory applicable to all the firms. For the case of SMF., this modeling seems does not to be easily compatible with the will of the managers owners to preserve their patrimonial independence and to insure the perpetuity of their firm.

Nevertheless it is possible to ask question on the legitimacy of such an arbitrage for SMF.

Given the aim of this report, the analysis of the causes of failing of SMALL AND MEDIUM-SIZED

FIRM, which is about such as they were able to be observed in the industrial sector (according to the inquiries made by commissions and by banks) most

confirms that, in the most the cases which contributed to the bankruptcy, the firm proceeded to inadequate strategic choices. The reduction of activity of SMF. is generally at the origin of the difficulties of these last ones. The other causes of bankruptcy would be connected to the problems of management, finance, to the reduction of margins and profitability, and finally to the accidental causes. And if one reveals that, in more than one case in two, the costs of returns were badly known and the expenses of staff too important, it confirms an insuffusing in the management, not only strategic, but also tactical and operational.

Financial diagnosis certainly, reveals, some of these marks, but it remains incapable to give reliable, often not quantifiable evaluations when the managers are asked about the uncertainties which have an impact on the life of their firm, they are much more aware of those which are connected, to cyclical factors. As underlined by Gerard Hirigoyen and Alain Couret [1994], methods based on the use of ratios consider the firm only with regard to a single dimension, while this is a set of sub-systems. The difficulties of under financial system can result from like other sub -systems marketing or management of the production.

The firms, which meet serious structural difficulties, are especially companies, which are oriented to the local market.

The reasons of the difficulties met are summarized specially as follows:

-Important decline of domestic consumption (public and private) and consequently domestic demand for the case of relatively fragile SMF.. The difficulties of drainage engendered stocks and important interest charges connected to the stocking. This naturally ended in a slowing down in certain important cases, of the rhythm of activity and sometimes even a shortage of the production. The fall in demand is essentially due to the bending by the continuous decline of the purchasing power and to the increase of the unemployment rate due to the insufficient number of jobs.

-Some of the ailing firms widely depend on outer market for the import of raw materials, semiproducts or constituents, which are necessary for the manufacture of their products.

This dependence vis a vis abroad created for created for these companies in relation to problems of impoverishment because of the difficulties faced by Tunisia, particularly at the level of outside finances and of reserves of exchange essentially in the eighties (Annual Report of the BCT).

Besides, the strong depreciation of the Tunisian dinar struck these companies of full whip, and gave place to an important increase of their selling price. This increase in sale prices contributed to discourage more and more the domestic demand.

- Disproportionate inflation of the debt, hence the debt service of certain companies, in particular those which have just made themselves and that had to

resort to an outside financing (thus in currencies) of their imports of capital goods.

According to the examination of these companies by banks and commission, we also notice that, in the case of bankrupt companies in which the main factor is the reduction of activity, the proportion of bankrupt companies increases every time as soon as there are cyclical causes: fall in demand, technological obsolescence, the competition especially by the foreign products, competitiveness, etc., do not directly raise the financial domain. Ultimately, we can notice that the turnover falls, but financial status is not analyzed on the basis of all the real causes of this degradation.

This implies that the firm absolutely has to have an increasing activity, whatever the environment is, which is not even evident for big economic empires having influential position. Thus, we find that SMF, which were perfectly viable, profitable and which play an economic role, were put on knees under the weight of their debts drawn up in foreign currencies.

## 1.2 The Determiners of the Choice of the Financial Structure

The theory of the structure of the capital developed a lot in the various currents of research in the finance of firm. Since Modigliani and Miller [ 1958 ], the importance of the structure of the capital was put into practice by the consideration of the imperfection of markets especially for SMF.. Indeed, afterward costs of deal, asymmetry of information and bankruptcy, the consideration of taxes were introduced.

The introduction of the asymmetry of information allowed elaborating the theories of hierarchy of financing.

These theories of hierarchical financing knows recent developments. However, these theories are not new. Donaldson's [ 1963 ] works already recommended the hierarchy of following financing: self - financing, then average or long-term debts, and finally appeal debts increase of the capital. Since other studies were published according to two main axes of analysis: the one according to which leaders have as an objective to act for the interest of certain members of the firm, and the second where the managers try to minimize the cost of certain implicit or explicit contracts.

According to the second objective one finds the model developed by Maksimovic and Timan [ 1991], about the implicit contracts and that of Fama [ 1990] about the explicit contracts. As for the distinction between implicit contract and explicit contract likes their degree of formalization. Implicit contracts are not "manuscripts"; they concern for example the quality of goods or products sold. These contracts have a value according to which their non-compliance implies a decline of the value of the firm.

Explicit contracts are, for their part, "surer".

This second group of model is not less important than the first one.

However, the theoretical approach on which are based on that retained by the theory of signals. An environment of traditional market is required, This is not very realistic for Small companies and average-sized ones, which are generally unquoted companies. That is why we chose to limit our study to the models, which show that the managers of SMF. have as objective the maximization of the wealth of certain members of the firm.

In this context, one finds the model developed by Myers and Majluf [ 1984 ], who have latter elaborated a model, which is based on the following hypotheses:

-The managers having more information about the firm than the investors, will hesitate to provide actions, since they think that these will be estimated. They would be, on the other hand, tried to make

it, should the opposite occur on the true value of the firm and try, consequently, to choose the right moment. Potential investors understand that the managers have more privileged information for the signature.

-The production of the information is expensive.

On the basis of these hypotheses, Myers and Mjlf showed that, for a firm acting for the interest of these shareholders, the announcement of an increase of the capital always constitutes bad news. In the same way a conversion of debts in stockholders' equity, not because the control lever decreases, but because it is linked to an increase of the capital which leads, consequently, one under the future valuation of the firm on behalf of the new shareholders.

Whether it is justified or not, this estimation leads the managers to privilege self -financing, then debt, if appeal to the external sources of financing is necessary.

As for the description of objectives privileged by the managers of SMF., self-financing appears to be the first popular purpose. The hierarchy of financing proposed in Myers and Mjlf's model is, thus, perfectly coherent with the results of our study F. Abid and S. B. Hamad [1999]. The process of decision, within the framework of this model, recovers from the " procedural rationality ": it is likely to agree, considering the lack of specialization of the managers of SMF..

So, one can say, on the basis of these developments, that the objective of the maximization of the wealth of the former shareholders is already more adapted to Small companies and average -sized unquoted ones, although the objective of maximization of the wealth of the majority shareholders remains more probable. For the case of closed SMF., these two objectives are equivalent.

The modeling of the access to the markets of capital proposed by the two authors, the choice of the objective of the process of the managers is particularly coherent with the financial peculiarities of SMF.. With this theoretical approach, the rationing of the capital and a part of the specific relations of

agency in this group of companies find formalized theoretical justifications.

Concerning the financial specificities of SMF., one can say that Myers and Mjuf's [ 1984 ] model presents some insufficiencies. On the other hand, the conflicts of interests among leading owners and creditors can exist and engender consequently the non-formalization of the access of SMF. to the debts.

Although the two authors indicate that appeal to the debts is always more interesting than the increase of the capital, they do not clarify which type of relation the firm maintains with his its creditors. Is there a context of asymmetry of information between leaders and creditors? Do the creditors apply a policy of rationing credit and how are they going to estimate their payment?

According to the model proposed by these two authors, all the practicable projects are profitable.

There is, a priori, no risk of bankruptcy. Taking into consideration this risk is, nevertheless, important for SMF.. Let us quote, for example, the risk of bankruptcy, which is susceptible to strengthen the influence of the context of asymmetry of information about the behavior of the new shareholders.

Added to that, it is evident that the risk of bankruptcy is going to lead the creditors to be stiffer and more rational. Therefore, one can say that appeal to the self-financing or to the debts is not without limit.

Besides the model proposed by the two authors does not allow to take into account the set of financial specificities of SMF.

However, these different theories suffer from a lack of empirical validation met in the elaboration of works on the behavior of the managers in the determination of the choice of the financial structure within the framework of SMF..

### ***Control mechanisms of the leaders and policy of financing of SME Duality of the leader***

The structure of property of the company is a crucial factor of its system of governorship and to thereafter obtain an optimal capitalization which will make it possible the company to be effective (Hill and Snel (1988).

In the literature relating to the separation of the posts of head of the direction and chairman of the board, the divergent opinion: some support the duality, others denounce it.

Boyd (1995) defines the duality in the following way "the duality of the DG exists when the DG of a company is also used as president to the board of directors". The duality thus corresponds to the situation where the leader also occupies the position of president of the board of directors.

The potential advantage to have the same person who fills the two stations is that they should expose a greater comprehension and knowledge of the environment of the company.

The authors think that it is important that the firm is directed by only one person. They advance that the office plurality of the two functions makes it possible to have a clear leadership from the point of view of formulation and implementation of the strategy and it should consequently lead to a higher performance (Boyd, 1995; Godard and Schatt, 2000).

Moreover, they support that the separation of the functions dilutes the capacity of the leader and increases the probability that the actions and waitings of the leader and the board of directors are in contradiction what can create a certain competition between the latter.

On the other hand, a great number of authors affirm that the duality seems an obstacle with the separation of the functions of decision and control. Fama and Jensen (1983) discuss that it is more difficult to control in councils dominated by internal directors.

However, the thesis of the rooting (Shleifer and Vishny (1989)) supports that the leaders who have the majority of the actions can escape any control from the company, and consequently, they can manage the company from a contrary point of view with the development of an optimal structure of financing. They will resort to specific sources for financier of the investments by increasing consumption privileged considered to be generally excessive and can thereafter create a high replacement cost which will have U negative effect the value of the company.

## **2.3. Characteristics of the leaders of SME**

### ***2.3.1. The age of the leader***

The literature suggests that the age of the leader can exploit the value created by the company (Hambrick and Mason, 1984). Indirectly related to the age of the leader, the concept of seniority in the station (job tenure) seems also a relevant criterion to take into account to analyze the contribution of the leader to the creation of value of the company (Boeker 1997), by supposing a positive relation between optimal structure of financing and the age on the one hand, or the seniority on the other hand:

The role of the strategy, definite like the participation of the directors in the definition of the concept of the business of the company and its mission, and the selection and implementation of a strategy of the company (Pearce and Zahra 1992), or more specifically, the role of the directors like the provision of council and the guide with the chairman can be particularly important in the small companies (Daily and Dalton 1992). That proves that the training and the qualifications of the leaders in SME are essential components for the success of the company.

### ***2.3.2. The qualification of the directors***

Competences and the development of human resources are important for the commercial growth.

For example, the low education levels of the directors in the United Kingdom, compared with the USA, Japan, Germany or France, were suggested like a major deficit in SME. Consequently, the education level can have a strong influence on the financial performance because of the proven positive relation of the elevated levels of education for the contractors and their good will to use external information, to develop networks, and to use advisers or to direct (Crabtree and Gomolka, 1991, Lybaert, 1998).

Empirically, Bennett and Robson (2004) estimate in their model that the external council, the internal personnel, competences of the director and the roles of the council within SME act to a certain extent like substitutable elements. But, they found a weak influence of the characteristics of the council on the commercial performance. These authors show considerable influences on the performance starting from the associated coefficients on the one hand, between the councils which have members having scientific degrees or of the engineer and the productivity of a company and on the other hand, between the size of council and propensity to innovate.

One of the objectives of our study is to modify and to complete models studied to integrate a more important number of financial specificities SMF.. Thus, we will try, through a preparatory study, to establish a model of specific financing in SMF. and, more particularly, in Tunisian SMF..

The criteria of the elaboration of the questionnaire, and the methodology of the analysis will be exposed. First of all, empirical results will be presented and interpreted afterward. Finally, we elaborate an attempt of modelling on the financial decisions of Tunisian SMF. demonstrated on the opposite page with some theoretical predictions stemming from previous studies.

## Section 2. Methodology and description of the exploratory study

The exploratory study is based on directive maintenances with the managers and the responsible for the financial departments of 68 industrial firms. The questionnaire of the study consists of two parts in order to investigate the financial behaviour of investment and financing policies. Data treatment was made with respect to an adapted and specific method in this type of search: the factorial analysis.

After performing the result analysis, we will try to highlight a revealing model in the determination of the decision-making behaviour of the financial responsible of SMF..

The elaboration of the questionnaire of our inquiry is undoubtedly the most delicate phase to assess our investigation. There is no precise method to be followed to draft a good questionnaire, experience and practice display an essential role. The method enable us to establish the questions and the dynamics of the questionnaire consists of a preparatory pre-inquiry in

SMF.. In all the cases, the questionnaire was administered in our presence. This presence was very useful because it allowed to establish a report at the end of every inquiry, that is appraised by specialists in the area. These discussions allowed us to estimate the pertaining of our subject. It is to note that this pre-inquiry was of use to the elaboration of the instruments of the main inquiry of our study.

The definitive version of the questionnaire is established after having tested the aptness of questions with some SMF. These questions are characterized either with financial status, logical ratios, or with concept basic of the classic financial theory and the searches elaborated in this context which were analyzed. For each variable corresponds a logical question which allows to clarify a logical ratio or a behaviour of one SMF. on a financial status from which arises this variable. So, we elaborated definitely the variable of our questionnaire as follows:

At the level of the questionnaire, first five questions concern costs engendered by each of the constituents of the financial structure, which allow us afterward to determine the effect of every mode chosen on the value of the firm through two others variables. Miller [1977] thinks that the existence of a fiscal advantage not connected to the debts determines an optimal structure of the capital. In this direction, variables FIN5 AND FIN6 allow to verify if the effect of tax incites the managers to resort to debts or not.

The four questions which follow

FIN14 , FIN15 AND FIN17 are conceived to verify the signal emitted by debts and actions to study if direct financial participation allows to resolve the problem of asymmetry of information.

The FIN22, FIN23 and FIN24 describe the variables of control of the leaders and their importance in the behaviour of these leader in the choice of the optimal structure of financing.

We meadow - inquiry, tested on 8 firms of our basic sample, allowed us to finalize the definitive version of the questionnaire of which the object is to reveal the possible influence of certain financial constraints on the policy of investment of the managers and which means disputing, actually, the theorem of separation proposed by Modigliani and Miller.

Followed method is of preparatory type where, factors are identified from the variable. The analysis of raw correlations allows to determine factors from the variable. The power of a factor is connected to its capacity to be translated an economic concept but for the variable no-one would know what to do.

The reasons of the choice of the method will be explained before econometric specifications.

The interest of a factorial analysis is double: from an empirical point of view it allows to summarize information contained in variable or items 24 it about ten variables dissimilar. On the theoretical plan, it allows to arrest economic concepts which cannot be directly measured. According to Evrard and Pras [1993], the factorial analysis is of use of revelation to

an underlying abstract frame by the noise of measures".

The choice of an analysis in common and unique factors, AFCU, is explained by the fact that the analysis into a major constituent does not emit any hypotheses on the existing correlation and even to a less extent of causality between factors. The analysis into a major constituent is a purely empirical approach in which constituents are expressed as exact linear combinations of variables. The simplicity of calculations and the uniqueness of the solution are the indisputable advantages of this method.

However, it does not take into account the errors of measurements. It overvalues correlations artificially. On the other hand, the analysis into common and unique factors is a theoretical procedure whereby every variable has, on one hand, a common constituent as linear combination of common factors as, well as, a specific constituent on the other hand. The use of questions which have to do with the financial management and the interdependence between various decisions give rise to theoretical foundation to the existence of correlated factors. In addition, a literature review suggests the existence of some factors that are not directly observable, which have an influence on a set of variables necessary for the determination of the behaviour of the managers of the financial structure of Small and medium size firms, (notably at Timan and Wessels [1989]).

The extraction of factors is made, firstly, according to the maximum likelihood method. The estimation of the variance taken into account by common factors is elaborated within the framework of square of multiple correlations between factors. The study is carried out in three stages.

The first of which consists in analyzing data as they were established. From the so obtained results, relevant variables, the correlations of which are superior or equal to 40 % are held for the description of factors (that is one might well wonder if factors are correlated among themselves; if yes they are oblique, should the opposite occur they are orthogonal).

In the second stage, factors undergo a transformation; they then become independent. Then changes are analyzed with regard to the initial model. It is only in the last stage that the hypothesis of orthogonally is relaxed, thus factors become correlated.

After all, this study consists in making a preparatory analysis through common and unique factors about the already established data. The main aim is to find the nature as well as the optimal number of factors, which can lead to explain the structuralization of data. By means of this almost perfect result we can then present the financial behaviour of the managers of SMF. Tunisian manufacturing firms.

Given the fact that observed variables are linear combinations of underlying factors, the econometric specifications would take the form of the following equation, for every  $V_i$ ,  $i$  ranging from 1 up to 23.

$$V_i = \sum_{j=1}^{j=n} (b_{ij})(F_j)d_j(U_j)$$

With:

$I$  and  $j$ : complete natures;

$b_{ij}$ : are coefficients of correlations allowing the description and to interpretation of the factors responsible, which are at the origin of the variation in data analysis. This approach permits us to distinguish the common factors of specific constituents.

$F_j$ : represent common factors to several variables;

$U_j$ : is the unique factor exclusively influencing the observed variable.

The studied variable is characterized by its communality  $h_i^2$ , that is, the proportion of the variance taken into account by the common factor  $F_j$ . It allows measuring the already explained variable through factors. It is the sum the squared coefficients of correlation among this variable and any other factor, or:

$$h_i^2 = \sum (b_{ij})^2$$

The observed variable is characterized by its final variables § communality. This value remains the same at the end of the three estimation procedures i.e. to know the initial model before transformation, orthogonal rotation and oblique rotation of factors. This shows that rotations carried out in the factorial space are procedures outside the method. Theoretically speaking, rotations are justifiable by the fact that distance among variables can result from the errors of measurement.

The so obtained variable resulting from the transformed model and which represent the various factors are in turn going to be analyzed and verified according to their reliability.

For every factor, the study of reliability allows us to have results that are closed to reality. This indicator of reliability is called Combach's alpha.

According to G.A. Churchill, J. [ 1979 ] " a weak alpha coefficient indicates that the sample of items reproduced the variable in a bad manner. A big value of alpha, on the contrary, indicates that Kth item is very well correlated to real scores".

There is no well-defined statistical distribution allowing concluding whether  $\alpha$  is acceptable or not.

Yet, some empirical thresholds, suggested by the experience of psychometric studies, might serve as references. Thus, and according to Nunally's [ 1978 ] recommendations as, for any exploratory study

$\alpha$  ranges between 0,6 and 0,8; and according to Vernet [ 1991 ] for any confirmative study to take place, a value superior to 0,8 is recommended. Generally speaking, R.A Peterson [ 1994 ] points out that according to the majority of the research studies, (about 75 %), the value of alpha is superior to or equals the threshold of 0.70.

In our study, it is a question of designing an instrument of measurement allowing understanding of

the behavior of a manager during the process of choosing a financial structure.

### Section 3. The Result of the Analysis

In what follows, we shall deal and interpret the results of an inquiry made to reveal the major variables that determine the global financial behaviour of the managers of SMF. in Tunisia.

These factors are indicated by F ' in the initial model, and F in the final model. The first factor is the one that has the highest common variance, then, the second factor, and so forth.

Before proceeding to the factorial analysis, we present the results of frequency and the crossings of variable main clauses.

How do the managers of SMF. have to finance their projects of investment to be they want to relize? Is it necessary to privilege one or another of two traditional sources of financing than are stockholders' equity and debts? Is there an optimal distribution among these? How can one explain the different the

behavior of the managers in debts? Answer to these questions by the managers through our inquiry allowed us to clarify some important results.

The analysis according to the mode of financing privileged by the managers indicates that a rather strong proportion prefers recourse to debts, so, the majority of managers, or about 79,1 % take into account the cost of financing during the modification of the financial structure.

A priori, it does not seem that there is of optimal indebtedness ratio for a big proportion of the referees although costs engendered with the choice of this mode of financing are important.

A very strong concentration of referees think that debt by the emission;issue of obligations does not constitute a mode of attractive financing, appeal to the choice of this type of financing remains too weak for the managers of Tunisian SMALL AND MEDIUM-SIZED FIRM. This can be explained by two phenomena:

-The hesitation of the managers in the opening in the procurement contract by appealing to the public saving.

-The Tunisian Stock Exchange is not developed enough to encourage the managers to resort to this mode of financing.

Beyond the analysis of the choice of financing by the appeal to the debts, it seems to us convenient to analyze the judgment of the financial responsible on the importance of the financing by increasing the capital.

Increases in capital were less important in the choice of financing by the managers of the P.M.E than in the appealing to debts. This situation being in part of the responsibility of the managers who, confronted with the arbitrage between the loss of independence and the preservation of a certain autonomy, choose to appeal to banking financing with the aim of protecting this last one. Next to this choice,

deliberately made by the entrepreneurs, intervenes a constraint to which are confronted the managers and which recovers from the difficulty which the companies of Small and average dimension face when it is a question of reaching financial markets. Indeed, not only the SMF. Rarely arranges necessary financial structures to enter on stock-exchange secondary market or to emit of the commercial paper, but they succeed they also with difficulty in mastering the financial instruments.

By analyzing various costs engendered during a modification of the financial structure, we notice that

59.1 % of our interviewees give an importance to the cost of bankruptcy and this cost has a negative effect for the majority of the referees.

What one can deduct various answers to questions presented in the picture table it is the consideration of the importance of the costs of financing by the majority of the managers (about 79.1 %) of the total population during a modification of the financial structure.

Before proceeding to the analysis of maximum likelihood, let focus firstly to improve the internal coherence of the variable which determine the retained factors, proceeding the analysis of Cronbach's alpha (table 1). This method allowed us to pick up the variables which allow to improve the internal global coherence of variable with a value of alpha equal to 0,7035. It does not mean that the variable can not reflect tendencies to the determination of the choice of the financial structure.

**Table 1.** Reliability analysis-scale alpha

Variables	Correlation of the variable	Alpha of the variable
FIN2	0.297	0.6935505
FIN3	0.3129	0.69201285
FIN6	0.3516	0.682596
FIN10	0.3973	0.715158
FIN11	0.389	0.677169
FIN13	0.4546	0.6718425
FIN15	0.3903	0.679581
FIN16	0.3305	0.685812
FIN17	0.3771	0.6786765
	0.4161	0.664707
FIN20	0.3706	0.6863145
	0.3207	0.7130475
FIN21	0.3543	0.6927465
FIN22	0.297	0.6935505
FIN23	0.3129	0.69201285

The use of the method of origin of factors according to the main axis implies that the number of factors is equivalent to the number of variables. This mean that we should retain all the variables.

According to Tile [ 1966 ], it is necessary to retain all the factors which represent 99 % of the variance. This imply retaining the 11 factors of which accumulated variance is 99,4 %. However for better interpretation, only some factors will be reserved. The analysis according to the method of the maximum likelihood offers two criteria for the optimal choice of



factors which would describe suitably data. Indeed, this method has two important advantage with regard to the so called " the main axis ". It firstly allow to test the significance level of the number of factors to be held. It secondly gives a better estimations of parameters.

Reading the proper values of the correlation matrix on table1 shows the portion of the common variance captured by every factor.

In order to preserve a factor, it would be good that the variance which it restore s is highly superior to this restoration at random: for example, only factors which restore a proportion of the variance superior to twice quantity  $100 / p$ , where p is the number of variable introduced, will be retained.

The starting point of the analysis is the correlation matrix, the most usual rule is the Kaiser § s, which consist in retaining the factors which correspond to eigenvalues superior to the unity.

The proportion of the eigenvalues of a factor with regard to the total eigenvalues of the correlation matrix gives the contribution of every factor to the common variance. This value is 28.5 % for the first factor F'1, it decreases to reach a portion less than 9.8 % for the fourth. For a proportion lower than 5 %, the role of the factor is supposed unimportant. So, only the factor whose contribution is superior to 5 % will be reserved.

The histogram of eigen values "the scree ", where in abscissa is the number of factors, and in ordered the percentage of inertia which axes restore, is useful for the choice of the number of factors. Only

factors appearing before the discontinuity are supposed important and will be retained for the analysis.

**Table 2.** The matrix of reduced correlations

Factors	Eigen value	Proportion	Cumulative
1	3.1335	28.5	28.5
2	1.6510	15	43.5
3	1.3726	12.5	56.0
4	1.079	9.8	65.8
5	0.8914	8.1	73.9
6	0.7866	7.2	81.1
7	0.6396	5.8	86.9
8	0.5292	4.8	91.7
9	0.3792	3.4	95.1
10	0.3012	2.7	97.9
11	0.2331	2.1	100

The combination of the test result of Cattell. B and Vogelman S. [ 1977 ] with the criterion of proportion 5 %, leads to retain 4 common factors to determine the behavior of Tunisian SMF. managers in choosing the appropriate capital structure.

### Various Factorial Models

Table 3 presents initial factorial model, where values that are superior to 40 % are retained. These variables are symbolize \*. The table is constructed from the raw state data without any transformation of factors. In this stage, we should notice that any hypothesis on the position of factors is imposed.

**Table 3.** Factorial Structure of the initial model with uncorrelated factors

Variables	Facteur1	Facteur2	Facteur3	Facteur4
FIN2	0.01398	0.4425*	0.7405*	0.0875
FIN3	0.1592	0.3448	0.3784	0.21041
FIN6	0.2188	0.4162*	-0.1658	-0.0863
FIN10	0.99950*	-0.0017	0.0003	-0.0001
FIN11	0.50634*	0.0400	0.1464	0.0077
FIN13	0.1111	0.64178*	-0.1137	0.1146
FIN15	0.06134	0.70027*	0.01903	-0.4660*
FIN16	0.16094	0.2671	0.3731	-0.05532
FIN17	0.2932	0.1948	0.21522	-0.0155
FIN20	0.28913	0.6903*	-0.4393*	-0.0155
FIN21	0.18348	0.5246*	-0.1921	0.56177*
FIN23	0,8432*	0.2641	0.1274	0.01651

The terms of the matrix are the coefficients of regression standardized for variable prediction from factors. In a factor analysis, a variable is set to be "significant" unless its coefficient of correlation with the factor is important. Initial model is represented by the matrix of regression coefficients of the observed variables  $FIN_i$  (i ranges from 1 to 24) with factors  $F_j$  (j ranges from 1 to 4). Indeed, observed variables are supposed to be linear combinations. Coefficients exceeding 40 % are retained for the description of factors.

We notice that variable FIN2, concerning the holding of the cost of financing during the transformation of the financial structure of the firm, has a factorial complexity of two since it has coefficients simultaneously significant for factors F ' 2 and F ' 3. Variable FIN15 has a factorial complexity of two since it has simultaneously significant coefficients for F ' 2 and F ' 4. Among variables having a factorial complexity of the same factors are FIN15 AND FIN21 who have simultaneously significant coefficients of load respectively for factors

F ' 1 and F ' 4 and variable FIN20 having a complexity of factors F ' 2 and F ' 3.

This result gives an empirical foundation to the importance of the nature of the of the firm § s financial policy. An optimal financial structure that allows the maximisation of the shareholder § s wealth has a coefficient of correlation superior to 50 % with the first and the fourth factor. This outcome confirms the hypothesis of the importance to maintain an optimal indebtedness ratio to resolve the problem of costs. The following table presents variable specific in every factor, it allows to name them according to their characteristic. The first factor (F'1) is described by 7 variables that determine the financial structure. Question FIN15 clarifies whether the modification of the financial structure by issuin g of new ordinary shares is a signal of bad performance of the firm. This indicator has a negative significant effect in various studies that have dealt with the performance measurement of the firm. Indeed numerous theoretical and empirical works bent over the study of the relation between the structure of property and the performance (Jensen and Meckling 1976, Demsetz on 1983, Demsetz and Lehn on 1985 and Myers on 1993). Jensen and Meckling, for example, demonstrate that the firm§s performance is perfectly and positively related to the proportion of equity shares held by the manager.

This supports the thesis of the convergence of interests. Whereas Demsetz and Lehn shows that relation between the indication of capital distribution and the firm§ s performance, measured by the rate of accounting profitability of stockholders' equities, is not significant; what coincides with the thesis of neutrality of the property structure. Holderness and Sheehan have shown evidence of the non-existence of a significant difference in the performance between firms whose majority shareholder is its own manager and those whose majority shareholder is a moral person. Our study is in accordance with the last analyses. Factor F ' 1 describes the structure of financing and its constituents as well as its influence on the value of the firm, while F ' 2 describes costs engendered by a modification of the financial

structure and factors determining the cost of financing.

Third factor emphasizes the determiners of the choice of the debt and their influence on the value of the firm, while the last factor F ' 4 represents the variable which allow to verify if the choice of an optimal structure of financing allowed to maximize the value of the action as well as the existence of a relation between the structure of the firm and its value. This description is a first approach where the existence of variable multidimensionnelles strongly correlated has several common factors prevent us from making decisions on this type of financial behaviour.

### Correlated Factors Model

Initial model undergoes a transformation to the extend that factors become independent. The objective of the method consists in maximizing the variance of a column of the factorial matrix. This means identifying the variable which are more strongly connected to a factor, then to determine what these variable have of common. Orthogonal factorial model has to have a simple structure for a good interpretation of factors described in the table 4. Only factor F1 and F2 and F3 has A simple structure.

So the variables determine these factors having a definite important degree of reliability givin by th e alpha. The terms of the matrix of the model not correlated are standardized coefficients of regression, comparable to those obtained in the multiple regression. Indeed, the coefficients of strong correlation when variable preachers are completely independent, as in the orthogonal case. We considers them normalised linear weights which estimate the effect of every factor in the variability of variable observed. After all, one will retain factors F1 and F2 and F3. F1 represents costs engendered during a modification of the financial structure, so we allow can know if target private participations offer an exchange of information. Whereas F2 shows the mode of chosen financing, and if it is type stockholders' equity it can be a signal of ineffectiveness! The signal emitted by debts is determined by the factor F3.

**Table 5.** Final Statistic

Factors	Eigen value	Proportion	Cum
1	1.5743	14.3	14.3
2	2.2529	20.5	34.8
3	1.1693	10.6	45.4

**Table 6.** Structure Matrix

	Factor 1	Factor 2	Factor 3	h2
FIN2	0.13105	0.1913	0.8605	0.75211
FIN3	0.22133	0.17634	0.5343	0.3319
FIN6	0.22023	0.4826	0.1026	0.2561
FIN10	0.9895	0.2199	0.1313	0.999
FIN11	0.522207	0.1112	0.2123	0.2795
FIN13	0.12846	0.5726	0.2644	0.4503
FIN15	0.1113	0.79101	0.3582	0.7117
FIN16	0.2228	0.2048	0.47038	0.2395
FIN17	0.33082	0.2263	0.3141	0.1823

FIN20	0.26844	0.77572	0.03174	0.75347
FIN21	0.1743	0.3434	0.1788	0.66137

**Variable Specific Describing Final Model in 3 Factors**

**Variable describing ( F1)**

FIN10: to contract a debt you take into account the cost of bankruptcy

FIN11: The cost of bankruptcy has an effect in the value of the firm

**Variable describing ( F2)**

FIN6 : Participation by public offer allowing a less satisfactory exchange of information

FIN13 : level of optimal debts which allows the maximisation of the value of the firm

FIN15 : The issue of ordinary shares conveys a signal of bad financial performance

FIN20 : Financial structure allows to maximize the company's share value on the market.

**Variable describing ( F3)**

FIN2 : During the modification of the financial structure of the firm, you take into account the cost of financing

FIN3 : If the cost of financing is determined by the market?

FIN16 : If dividends were deductible from the taxable profit, would you decide to increase capital?

**Determinants Factors of the capital Structure Choice**

In this last stage of our analysis of the behavior of the manager, we study the correlation among various variable determining the structure of the capital and the factors are studied. It is necessary to remind that the function of the manager of the firm is to elaborate optimal rules of management which aim to maximize the shareholders wealth. In financial structure, decision seems convenient to present, if there are variables which determine the financial choice that allows the maximization of the share value (FIN20). Indeed, we analyze these variables taken into account, in order to get much understanding of the behavior of SMF. in functions manager. In this frame, we are going to present a model of the choice of the mode of financing which is explained by variable constituting the factors of the final model F1, F2, F3.

Generally the shareholder will privilege appeal to the self-financing, as far as this mode of financing allows to avoiding the agency cost to the debts. However, if we consider the fiscal aspects, the shareholder would not have interest to pick up a self-financing only if there are enough profitable opportunities of growth with regard to the incurred risk. In to opposite case or if generated self-financing seems insufficient, it is preferred appeal to the debts.

This result confirms with Andrew and Eiseman's searches which eventually concluded that proportions debts by stockholders' equity of SMF. are raised enough. The fact of counting too much on external

resources under forms of debts characterizes not only the choice of the managers but their preferences.

Stoll reported that Rober study established in 1980 at the expense of Heller's institute indicated that only 2 % of studied Small firms would have chosen financing by stockholders' equity of their investments as first choice, whereas 90 % would have chosen financial debts with banking institutions as first choice.

Indeed, if we analyze the results of our study on the choice of financing preferred by the managers, we notice that these last ones resort to the financing by debts as additional source. This choice tends sharply more raised{\*brought up\*} than appeal to the financing by increase of the authorized capital.

According to our analysis in case of appeal to the debts, we notice that debts under forms of obligations as means of attractive financing are not significant with any variable, it explains itself that financing with subjective character are the last ones wished by the managers because they imply high costs of control and are so expensive. Banking financing and credit lease are financing generally preferred by the managers.

The results of the regressions of the mode of chosen financing which allows the maximisation of the value of the firm are presented in the following equation.

**Model and Tests**

Data analysis resulting from correlations allowed to depict each factor. The Pearson statistic allowed us to find out that the factor F3 and F1 of the final model have the proxy of the capital structure. The models or the financing choice are explained by variables represented by factors F2 and F3 that we describe as follows:

Firstly, we proceeded to test the equation describing the linkage between the choice of the level of optimal debts and the other variables.

This equation is formulated as follows:

The multiple regression of this model allowed us to find the variable coefficients as well as the student test associate to each variable and the fisher test of the model.

The output of the regression analysis is presented in the following equation (7')

$$FIN\ 13 = 0.067 + 0.3542\ FIN\ 2 + 0.20553\ FIN\ 11 + 0.3821\ FIN\ 20$$

(0.7966) (2.402) (2.205) (4.020)

Numbers in parentheses beneath the coefficients are the t student associate d to every variable. They are significant at the level of 5 percent.

Taking into account at the same time Fisher statistic and the coefficient of linear correlation, we can support, on one hand, that the consideration of the

cost of financing during modification of the financial structure, the variable  $FN_{11}$  who represents the negative effect of the bankruptcy cost, as well as the choice of an optimal structure of financing, are the best indicators of the determination of the debt volume.

Indeed, the excessive use of debts can result to a bankruptcy risk which incites the managers owners to bear the most risky investment projects, since this alternative can be assimilated to a call option whose strike price is the value of debt. As the value of an option is an increasing with respect to the variance of its underlying, the value of their share increases with the operational risk of the firm. Black and Scholes [1973]. Notice that a bad anticipation of the additional debt can be also source of conflict. Indeed the more the proportion of debt in the capital structure the more the costs associated to relations among managers owners of the firm and creditors.

It turn out that the choice of an optimal ratio of debts is a function the optimal financial structure and the cost engendered by this mode of financing.

The analysis of the choice of global financing according to variable determining factors are exhibited in the following equation:

$$FIN_{20} = \alpha_1 FIN_2 + \alpha_2 FIN_3 + \alpha_3 FIN_6 + \alpha_4 FIN_{10} + \alpha_5 FIN_{11} + \alpha_6 FIN_{13} + \alpha_7 FIN_{15} + \alpha_8 FIN_{17} + \alpha_9 FIN_{17} w_i \quad (8)$$

The multiple regression of this model we allowed to find the variable coefficients as well as the student statistic associates to each variable.

$$FIN_{20} = 0,389FIN_2 + 0,057FIN_3 + 0,117FIN_6 + 0,098FIN_{10} + 0,126 FIN_{11} + 0,377FIN_{13} + (1,973) (1,201) (0,421) (1,88) (1,088) (3,031) 0,455FIN_{15} + (3,805) 0,15 FIN_{16} + 0,122 FIN_{17} + 0,192 (1,459) (1,278) \quad (8)$$

According to regression results it is well discernable that the values of t Student in brackets are not quite significant at the level of 10 %.

In order to make our model much more subtle, we have proceeded to eliminate variables having a t student that is not significant. The ending equation which represents the set of factors selected to govern the choice of the financial structure that is consistent with the value creation is presented as follows:

$$FIN_{20} = \alpha_1 FIN_2 + \alpha_2 FIN_{13} + \alpha_3 FIN_{15} w_{ii} \\ FIN_{20} = 0,4311FIN_2 + 0,3967 FIN_{13} + 0,4898FIN_{15} + 0,3650 (-2,596) (3,333) (4,117) (1,306)$$

Based on the above results regarding financial specificities of the Tunisian SMALL AND MEDIUM-SIZE FIRMS the positive framework introduced by Franco Modigliani and Merton Miller and their possible limit when extending it to a specific context allows to outline some characteristics of the behaviour of Tunisian SMALL AND MEDIUM-SIZE FIRMS that should be analyzed.

The Modigliani and Miller (1958) paradigm establishes the first formal theoretical approach of the financial structure. These two authors aimed to demonstrate the independence of the value of the firm and the financial structure. Albouy M and P.

Dumontier, [1996] argued that " the key insight of their proposition did lie solely in this revolutionary idea, but also and especially in the methodology of reasoning that have led to it : The use of the arbitrage". Arbitrage based model of Modigliani and Miller was published in their 1963 paper. They considered criticisms granted to their first formulation and they introduced the levy of the incomes of the firm. Merton Miller (1977) generalized the framework to account for tax when it is differentiated among investors.

Criticisms of the Modigliani and Miller approach are related to certain classic hypotheses that seems to be unadapted when extended to financial specificities of Tunisian SMF.. In such context we notice:

The introduction of the firm's income levy has deeply modified the previous analysis. So the value of a leveraged firm is equal to the value of a similar unleveraged firm, raised by the present value of the economy of tax.

In this theoretical framework, the value of the firm is not independent from its financial structure.

The idea that companies have the possibility of lending and of borrowing at the risk free interest rate is generally formulated cannot capture the real behaviour of the financial market. Massive appeal to the debts can lead to bankruptcy risk. Two adjustments can take place: the shareholders raise the earning rate required on their stockholders' equity and the creditors try to adjust gradually to the increase interest rates required on the debt. On the other, if we look back to the theory and regression results given by equation (8) we can give rise to new explanations in the determination of the specific conditions of the value of the firm in Tunisian SMF.

Arbitrage between financing via equity and via debt as modelled by Modigliani and Miller is not adapted to Tunisia SMF.

In the specified context, arbitrage does not allow to take account neither of the credit rationing policy applied by banking institutions nor of the capital rationing policy exhibited by the behavior of the firms' managers.

Indeed, Tunisian SMF., have not the possibility to appeal to public saving in capital market.

Furthermore it is necessary to call back, that it is probably inevitable that banks apply some elements of the credit rationing to resolve the conflicts of interests and to remedy the asymmetry of information.

Modigliani and Miller's theories, presuppose the impossibility to access to outside financial resources to the extent that it doesn't allow to integrate the existence of these constraints. Besides, it is clear that arbitrage between these two financial sources is a function of specificities of Tunisian SMF.

Thus, according to the behavior of the managers of Tunisian SMF. the large portion of the managers privilege patrimonial independence, perpetuity then growth. If managers are disinterested, then they can refuse to deal with risky projects that can modify the financial structure and cause significant costs that

result in a decreasing the share value. Tunisian SMF. exhibit specific agency relations: the incorporation of specific characteristics such as the personal responsibility of the managers, the personal or familiar property of the managers, the insufficiency of a of an effective management system and the concentration of control can stimulate a conflict among the minority shareholders and manager majority. The ultimate objective of the manager owner is to maximize of his wealth or the patrimony its family. This can lead him to increase their privileged consumptions through different canals that can induce an agency conflict.

This specific behaviour of the managers makes difficult the control of SMF. managers by the minority shareholders, the banker or the supplier of the capital risks. This particular situation can increase the agency costs that could affect the value of the firm.

Bankruptcy cost constitutes another relevant factor that can decrease the value of the firm an this is for various reasons:

-The proportion of failing companies is higher as we deal with cyclical causes: fall in demand, competitiveness etc...

-The risk of bankruptcy is due in a large part to the behaviour of the managers and their expectations.

As we have already noticed, under the weight of the firm's debts and the rationing credit policy applied through increasing the interest rates rise bankruptcy risk of these companies even if they were already perfectly viable, profitable and displaying an economic role.

## Conclusion

The relevant question examined in this behavioural study of the SMALL AND MEDIUM-SIZE FIRMS in financing decisions is whether the managers of SMF. exhibit the same behaviors compared to those managing Big-sized firms. We aimed to expose the theoretical developments that were built on this subject to determine the specific financial troubles met by SMF. and to justify the determinants of the choice of the financial structure and the behaviour of the managers of SMF.

It seems that this theoretical approach brings several elements relative to the explanation of the real behaviour of the managers of Tunisian SMF.

In what follows, we shall deal and interpret the results of an inquiry made to reveal the determining variables main of the financial behaviour of the managers of SMF. in Tunisia. We treated and successively interpreted the results of the explanatory study with managers of Tunisian SMF to reveal the determining variables of their behaviour in financing.

On the other hand given the results as well as theory, we noticed a new explanation in the specific conditions of the values of the firms in Tunisian SMF.. Arbitrage in financing by stockholders equities

and debts is not adapted to the specificities of SMF. in Tunisia which are unquoted in the financial market. It does not also take into consideration of the policy of rationing credits applied by banking institutions nor by the policy of rationing of capital existing in the behaviour of these firms. Indeed,

Tunisian SMF., by definition, have no possibility of appealing to the saving public in market. Banks also apply some elements of the rationing credits to resolve the conflicts of interest and to remedy the information asymmetry. So, according to the behaviour of SMF. the large majority of the managers privilege the patrimonial independence, perpetuity then growth.

Tunisian SMF. present specific problems of agency. These relations justify themselves by the responsibility and the personal and domestic property of the managers, the incapacity of a system of effective management and power concentration. The objective of the manager which is to think of the maximization of his wealth or the patrimony of the family can lead enterprises to increase their privileged consumptions which are considered as excessive by means of takings in kind or by specific financial assemblies.

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