

Evaluation of corporate governance practices in Algerian small and medium sized enterprises :case of an industry SME in Chlef.

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Abstract:

This study aims to identify the level of corporate governance in Algerian small and medium sector through the theoretical and empirical research. This research used the interview method to collect the essential data of this study, the concerned persons of this study were the general director, the secretary general, the accountant, the employees department chief and the financial and accounting department chief, the results of this paper shows the corporate governance in the studied enterprise are quite good but the mechanisms of corporate governance are not enabled as it should be, the enterprise do not pay importance to the external stakeholders, also this study comes to a result from the theoretical part that the level of corporate governance in Algerian SMEs is still weak, as great efforts need to be provide and do not just depend on released laws and legislations related to corporate governance practices.

Key words: small and medium sized enterprises, corporate governance, code of corporate governance, Chlef, Algeria.

JEL classification : G, G3, G34.

تقييم ممارسات حوكمة الشركات في المؤسسات الجزائرية الصغيرة والمتوسطة: حالة الصناعة الصغيرة والمتوسطة في الشلف.

الملخص:

تهدف هذه الدراسة إلى تحديد مستوى الحوكمة في المؤسسات الصغيرة والمتوسطة الجزائرية من خلال القيام بدراسة نظرية وتطبيقية في هذا المجال. استعملنا من خلال هذه الدراسة أسلوب المقابلة للحصول على المعطيات والمعلومات اللازمة من أجل القيام بتحديد و تشخيص واقعي لمستوى حوكمة المؤسسات، من خلال المقابلة التي أجريناها مع كل من المدير التنفيذي للمؤسسة، الأمين العام، المحاسب، رئيس مصلحة الموظفين و رئيس مصلحة المالية و المحاسبة توصلنا إلى مجموعة من النتائج مفادها أن مستوى حوكمة المؤسسات جيد نوعا ما، لكن من جانب تبقى آليات الحوكمة غير مفعلة كما يجب، كما أن المؤسسة لا تولي اهتمام كبير لأصحاب المصلحة الخارجيين. كما توصلت هذه الدراسة من خلال الجانب النظري إلى أن مستوى حوكمة المؤسسات لازال ضعيف ولم يرتقي إلى المستوى المنشود و هذا ما يستلزم بذل جهود أكثر من جميع الأطراف الفاعلة، كما أن تطبيق حوكمة المؤسسات غير مرتبط فقط بالقوانين التنظيمية و التشريعية المرتبطة بحوكمة المؤسسات.

الكلمات المفتاحية: المؤسسات الصغيرة والمتوسطة، حوكمة الشركات، آليات الحوكمة، الجزائر .

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Introduction:

The world economy has witnessed during the last decade of the 20th century massive and tremendous changes in different aspects and levels, and this has put effectively its impact on the policies of realizing good rate of economic growth and development whereas in the developed or developing countries, as a result of that effect the countries are no longer depend only on the big enterprises to achieve progress and having economic growth. The tendency towards the small and medium sized enterprises sector was an important decision and solution to face the crucial challenges imposed by the globalization and environmental changes.

SME are now a days the key pillar and the backbone of countries economy, this sector has proven its ability to face the major challenges, they became indispensable in all economies. Besides, they are leading and driving the force of business, growth, innovation and competitiveness. In fact, the statistics refer to stunned information belong to SMEs efficiency in term of job creation and reducing the average of unemployment, achieving growth, bringing direct foreign investment and participate broadly in the GDP, studies estimate that 90% of world enterprises are SMEs ones and they are separated approximately over all the fields.

According to the Algerian ministry of industry and investment promotion, the estimated number of SMEs is 747 934 in the first semester of 2013, most of them are familial and small and very small ones, these statistics show that 90% of Algerian enterprises are SMEs ones, the statistics has proven also that the majority of those enterprises do not live more than 5 years and that is mainly due to the lack of good management strategies and policies. Furthermore, they do not have enough funding sources. In front of all these obstacles and inhibitors that slow down the development process of SMEs sector, Algeria finds itself standing against a big and huge challenges which is to exceed in a good manner this crucial and difficult situation.

Algeria has adopted the concept of corporate governance as important solution to enhance and develop the sector of SMEs in different aspects through underpinning and launching the code of corporate governance for SMEs in 2009.

Problematic:

Although the intensive efforts given by the Algerian authorities to establish an encouraging environment for SMEs to adopt corporate governance practices so as to improve their capacities and to reach competitiveness, Algerian SMEs still struggle to have the good approach to practice corporate governance policies and enable it in a way to maximize their main objectives and strategies. In this paper we are dealing with corporate governance in Algerian SMEs, in which we will try to get answer for our main question:

What are the level of corporate governance practices in Algerian small and medium sized enterprises?

To facilitate our research and to give more details about our study, we may ask the following question:

- what do we mean by corporate governance and what are their principles?
- how are SMEs defined in the Algerian economy and what is their importance?

Important of the study: the importance of this study comes out from the subject it tackles with, the research concerns on showing some sides which would boost the role of corporate governance in small and medium sized enterprise, the research also concerns on showing the

fact of corporate governance on the Algerian SMEs.

Objective of the study: this research aims at the following aspects:

- Recognizing the positive perceptions of corporate governance in SMEs.
- Discovering the degree of engagement of corporate governance in small and medium sized sector.
- Setting a general framework of corporate governance system in the Algerian SMEs.

Theoretical part

I. Small and medium size enterprise:

I.1 Definition of small and medium sized enterprises:

Small and medium-size enterprises (SMEs) are acknowledged globally for their unique contribution to economic development and creating employment opportunities. Both developed and developing countries realize that SMEs have become one of the key instruments to use to face economic and social problems and to achieve development objectives. Therefore, unsurprisingly, political strategists have frequently viewed SMEs as the “seeds” of economic revival.

Just like Corporate Governance, the term SMEs does not lend itself to one universally acceptable formal definition. SMEs have been identified differently by various individuals and organizations, such that an enterprise that is considered small and medium in one country is viewed differently in another country. Even within a country, the definition changes over time. Some common indicators employed in the various definitions include total assets, size of the labour force employed, and annual turnover and capital investments. In addition, no single definition of SMEs exists among officials of multilateral development institutions because each thinks within the context of the official definition of his own institution (B bouazza 2015. P.03)

According to the Algerian ministry of commerce, Small and Medium Enterprises is defined regardless of its legal status in term of providing either good or service or even both, by setting some characteristics which are:

- Not more than 250 employees;
- Annual turnover does not exceed 02 billion dinars or whose annual balance sheet total does not exceed 500 million dinars;
- It should match with the criteria of independence.

I.2 The Characteristics and Features of Small and Medium Enterprises:

Among the characteristics of small and medium enterprises that have made them able to play an important contribution toward the economic and social development as well as contribute to reduce the rate of unemployment, the following characteristics are presented (Y alia. 2014. P.167):

- Enhancing the initiative spirit of individual and group by initiating economic activities for goods or service that didn't exist before, as well as the revival of economic activities have been abandoned such as the traditional industries.
- Reintegration of demobilized employees from their positions due to the bankruptcy of some public institutions or the employment reduction in some organizations as a result of

restructuring and privatization, which supports the possibility of compensation some of the lost activities.

- Generating new jobs' offers both directly via enterprises establishers and indirectly through recruiting of other jobless individual within enterprises, which can lead to a rapid response to social demands in the employment field, as these enterprises seek to provide work positions intended for individuals who do not meet the needs of large organizations, These enterprises pay less wages than the large organizations do, as the average qualifications inferior to those obtained by employees working for large organizations. Small and medium enterprises can establish an effective tool for activities resettlement in remote areas, leading them to be an effective tool for a significant enhancement of local wealth and a mean of domestic regions merging and integration.

II. Corporate governance:

II.1: definition of corporate governance:

Corporate governance has evolved out of the need to protect those who provide external Finance to the corporation from those who have control over the firm. This clash of interest Between the managers of the firm and the owners is usually referred to as the agency problem. The attempt to mitigate the effect of this clash has been the driving force behind the evolution of corporate governance.

The term "Corporate governance" does not easily lend itself to one universal definition. Different writers have defined it differently from different perspectives.

It was defined as: "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby, mitigating agency risks which may stem from the misdeeds of corporate officers" (Sifuna, Anazett. 2012. P. 04).

Gerrard Chareaux one of the pioneers in the field of corporate governance has defined it as: "The mechanisms which intend to determine the authorities and have an impact on the directors decisions, in other word govern their leadership toward the corporate and set the scope of their authorities" (Mimouni. 2012. P. 15). Others writers have given definitions to the corporate governance as follows:

The process carried out by the board of directors, and its related committees, On behalf of and for the benefit of the company's Shareholders and the other Stakeholders, to provide direction, authority, and oversights to management, "It means how to make the balance between the board members and their benefits and the benefits of the shareholders and the other stakeholders" (Youcef. 2007. P. 07).

It is clear from afore mentioned definitions that corporate governance is concerned with The processes, systems, practices, procedures, rules and regulations that govern Institutions, the manner in which these rules and regulations are applied and followed, the Relationships that these rules and regulations determine or create, the nature and the Effects of those Relationship.

II.2: Why corporate governance is important?

Corporate governance occupies a big importance in the view of the modern enterprises that is because it tackles a lot of tough troubles have a relation with management and ownership; it has also a huge correlation in determining the developing strategy of the firm. It is also considered by investors as a criterion to base upon it in the firms that do good governance.

However, it was noticed that the firms that practise corporate governance has high shares more than those who do not practise corporate governance.

In addition to what we have cited, corporate governance has too importance in defining the following issues (Hamadi. 2012. P. 25):

- Fighting against the managerial and financial corruption inside the enterprises and do not let its existence and its return again;
- Ensuring the integrity, neutrality and uprightness for all the workers in the enterprises, starting from the board of directors arriving at the lowest level of the corporate workers;
- Determining the maximum benefit from the internal methods of control;
- Providing the enough level of disclosure and transparency;
- Guarantee a big level of efficiency for the external auditors, also make sure that they are on high degree of independency and they are not under any kind of pressure from the board of directors or from the executive directors.

III/ Corporate governance of the small and medium size enterprises in Algeria:

In the purpose of increasing the economic integration with the international society Algeria has provided intensive efforts towards the building of an institutional framework of corporate governance, thereby in the term of achieving that Algeria worked hard on enhancing its business environmental and has opened its economy for the foreign investment.

The framework of corporate governance in Algeria:

On July 2009, a work team made of CARE club (circle of action and reflection on the company) and FCE (forum of enterprises chiefs) with the collaboration of public authorities in the name of ministry of small and medium size enterprises and crafts, they agreed to release a code of corporate governance for the Algeria companies mainly the small and medium size ones. This code is the first edition for such kind of initiatives targeting to improve and master the managerial system for the Algerian companies. However, this code is like the others ones in different countries of the world but has the characteristic of the Algerian companies from different sides and perspectives.

It is considered as a basic document for the Algerian companies, public and private ones, who want to improve their performance and competitiveness on the local and foreign market, explained its founders, led by the forum of enterprises chiefs. The code is based on the achieving f the following principles (A SMEs Ministry. 2009. P. 27):

-**Transparency:** it means that the rights and obligations also the prerogative and resulting responsibilities must be clear for all.

- **Equity:** it means that the distribution of rights and obligations between the stakeholders also the privileges and engagements related with it have to be done fairly.

- **Responsibility:** it means that everybody responsibility is determined by a clear objectives and not with divided objectives.

- **Accountability:** that means every actor person in the company is responsible toward the other person in term of practicing through the given responsibilities.

Empirical part:**Methodology of the study:****Means of collecting data:**

We have used the interview method to gather the suitable data and information about corporate governance practices. Besides, there are also other means like:

- Direct observation.
- The empirical visit to several directions and services of the enterprise.
- Analysis of the content depending on the publications released by the enterprise.

Parties concerned of the interviews: the following table defines the persons to whom the questions of the interview were addressed.

TABLE01

persons inside the enterprise concerned of the interview.

Persons interviewed	Directions and departments
General director	Directorate general
Employees department chief	Administration department
Enterprise accountant	Accounting and finance department
The secretary general	secretariat

Source: prepared by the student.

The process of interviewing: the following table shows the way by which the interview has done through the time of interview and the number of sessions.

Table02

timetable of the process of the interview.

Time of the interview	Number of sessions	People concerned of the interview
30-50 minute	2	General director
20 minute	1	The accountant
30-60 minute	4	Employees department chief
15-40 minute	2	The secretary general

Source: prepared by the student.

Axes of the interview:

The questions of the interview focused on three main aspects of corporate governance perspectives:

- The culture of corporate governance.
- The internal system of corporate governance.
- Implementation of corporate governance mechanisms.

Table 03
the questions and answers of the interview.

Answers	Questions	Number
The enterprise is working hard to practice and enable the corporate governance concept, thus would reduce from giving opportunities related to corrupt behaviors which will impact on reaching the setting objectives.	-Do the enterprise apply the concept of corporate governance?	01
The enterprise depends on its internal system on a chart by which it clarifies the responsibilities and limitations of the dependable administrative levels, and that allows an easier control resulting in an accountability of it.	-Is there any organizational chart between different administrative levels in the enterprises clarifying the limits of authority and responsibility?	02
The enterprise depends on the board of director instructions through the periodical publications realized by the enterprise itself in order to inform the employers and administrators of the last development in terms of the systems and laws inside the enterprise, so as to keep everybody on knowledge of their rights and duties.	-Under which basis the organizational chart is set?	03
The internal audit is done by the accountant of the enterprise who protects the enterprise capital and realizes the administration objectives, as the accountant prepares the budgets, reviews the bills and makes sure on how extent is identical between what has been intended to do and what has been done in fact so as to discover and ban counterfeit and cheating, and this would increase the ability of the accountability of the administration and the enterprise overall, that means the augmentation of the credibility and enhancing the employers behaviors, hence reducing the danger of the administrative and financial corruption.	-How the audit process is done within the enterprises and who carry it out?	04
The board of director is considered among the regulatory bodies within the enterprise as it controls and oversees the administration, and engages the time it does its functions to protect the laws and regulations, the board of director plays also an crucial role in choosing and changing the executives directors.	-What are the basic functions of director's board?	05
Each administration and department specializations are determined and clear, also it announced to the employees attached to these departments and this is what has agreed the executive directors during the phase of collecting information, and this will for sure allow them to recognize their rights so as to require it in case of not fulfilling it, and their duties, subsequently doing it as it is programmed.	-Is it possible to say that all the administration specializations are set to be declared for the employees?	06
The enterprise engages in different legislations and laws regarding the quality and the business of the enterprise.	-At what extent does the enterprise engage in terms of laws and legislations regulations?	07
There is a clear salary schedule within the enterprise, it is characterized by the equity, objectivity and neutrality also the disclosure of the remunerations of the employees and administrators, and this process is up to the general director.	-On which basis the process of granting remunerations is done?	08
The nomination process is realized through the announcement of the required function to be held then inviting the qualified ones to introduce the requests and compare the competences and talents of the candidates, the responsible for this operation is the chief director who have the right of nomination and dismissing.	-How the process of nomination is run and who is the responsible of doing it?	09

Source: prepared by the student.

Analysis:

To evaluate the corporate level in the mentioned enterprises we have made an interview the managerial staff and employees so as to reach to a valued judgment, the analysis of the result are as the following:

01-we have found that the enterprise relies on its internal system on a chart which clarifies the responsibilities and the administrative levels limits, hence that would facilitate the control and accountability.

02-the enterprise depends on board of director instructions through the periodical publications which the enterprise does it to inform the employees and administrators of the last development concerning the regulations inside the enterprise, so as to keep everybody in touch of their duties and rights.

03-the enterprise is working hard to apply the corporate governance concept which will reduce the corruptive behaviors that may affect the reaching of the underlined objectives.

04-we have reached to a result that the board of director is considered among the regulative bodies inside the enterprise as it controls the administration and oversees and it plays an important role in choosing and changing the executive directors.

05-we concluded that the internal audit of the enterprise is done by the enterprise accountant.

06- about the question of nomination process, the aim of this question is to know whether there is a nomination committee or not in the enterprise, we have concluded that the nomination process is realized through the announcement of the request job.

07-About the question of remuneration process, we have concluded that there is a salary schedule inside the enterprise which is clean and equitable.

08-the enterprise engages in implementing the laws and regulations related to the enterprise activity.

Conclusion:

The implementation of corporate governance in Algerian SMEs an available issue, the efforts providing over this good initiation is still in the beginning and the chance of success is so big, but this success would not to be achieved just for launching legislation's and regulations, the efforts have to be doubled through the cooperation with international and regional organizations. In this regard, the focus should not be only on the big enterprises and neglecting the SMEs ones which need to be rehabilitated to be reintegrated in worldwide economy specified by the tough competition, especially alongside the cool down of corporate governance pace and enabling its mechanisms.

And throughout our study in the mentioned enterprise, we have reached to the following result:

- The small and medium sized enterprise sector in Algeria is still weak and it need a huge effort to develop it.
- There are imperfections regarding the corporate governance reflecting the weakness of the enterprise structure.
- The shortage of awareness for several enterprises of the importance of corporate governance.
- There is not a defined will in term of corporate governance in Algerian SMEs in

general.

- The weakness of the legislative and fiscal system which hamper the good practice of corporate governance in SMEs.

Recommendation:

- The consolidation of transparency and disclosure of information for the ones who request it on time, so as to boost its credibility.
- The organization of periodical meetings to discuss the problems and raises the concerns of all stakeholders in front of the leaderships.
- Developing the financial and accounting aspect of the Algerian SMEs according to international financial and accounting standards.

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