

Corporate governance models in Algerian Small and Medium Sized Enterprises: "An empirical study on SMEs in Chlef and Sidi- Belabess"

نماذج حول حوكمة الشركات في المؤسسات الصغيرة والمتوسطة في
في الشلف وسيدي بلعباس. SMEs الجزائر – دراسة تجريبية على

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Abstract:

This study aims to shed light on corporate governance practices in the Algerian small and medium sized enterprises where the intention is to identify and determine the appropriate model of governance for the Algerian SMEs. The study took place in 15 joint-stock and limited liability enterprises in the region of CHLEF and Sidi BelAbess, the empirical study was about a questionnaire in which we tried to recognise the main elements that would form the pillars of governance model for the stated companies and to pull out the reality and fact of corporate governance practices. However, after analysing the collected data and after the inferential statistics our reached results were that the model of governance for Algerian SMEs is based on the following elements: internal actors and their mutual relationship, external actors and their mutual relationship with the enterprise, the structure of property which is related to the familial pattern.

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Key words: small and medium sized enterprises, corporate governance, internal actors, external actors, models of governance, joint-stock enterprises.

JEL classification: G, G3, G34.

ملخص:

تهدف هذه الدراسة إلى إلقاء على ممارسات حوكمة المؤسسات في قطاع المؤسسات الصغيرة والمتوسطة الجزائرية أين يكمن الهدف من هذه الدراسة في تحديد وضبط نموذج الحوكمة المناسب لهذا النوع من القطاع في الجزائر. تم إجراء هذه الدراسة على مستوى 15 مؤسسة مساهمة ومؤسسات ذات المسؤولية المحدودة في كل من ولايتي الشلف وسيدي بلعباس. الجانب التطبيقي كان عبارة عن دراسة استبائية حيث حاولنا من خلالها تحديد أهم العناصر الأساسية والركائز التي تشكل نموذج الحوكمة المناسب للمؤسسات الصغيرة والمتوسطة كما سعينا أيضا إلى الوقوف على واقع ممارسات الحوكمة في هذه المؤسسات. بعد أن قمنا بتحليل المعطيات المجمعة واستنتاجها توصلنا إلى أن أهم العناصر التي تشكل نموذج الحوكمة هي: الفاعلين الداخليين وعلاقتهم المتبادلة، الفاعلين الخارجيين وعلاقتهم المتبادلة مع المؤسسة، طبيعة هيكل الملكية في المؤسسة والذي هو متعلق أساسا بالطابع العائلي للمؤسسة.

الكلمات المفتاحية: المؤسسات الصغيرة والمتوسطة، حوكمة المؤسسات، الفاعلين الداخليين، الفاعلين الخارجيين، نموذج الحوكمة، مؤسسات المساهمة.

INTRODUCTION

The events by which the world economy passed through have put the concept of corporate governance on the top agenda of businessmen, governmental and non-governmental organisations and international finance companies, since 1997 which is related to the Asian financial crisis, passing by the scandal that hit "Enron" company in 2003 and "WorldCom" to the current financial crisis, all this events have shown the importance of supervision and good governance as an optimal approach to treat and prevent crisis. Corporate governance is no longer just an ethical manner which the companies have to respect, rather then it became a practical method

through which it ensures the good management of companies in the form that creates value for all stakeholders and achieving the sustainable development. As long as the intention nowadays is focused on providing transparency and trust in companies, it is necessary to help these last one to adopt ways and effective administrative approaches that would allow it to realise development and get access to competition.

Corporate governance presents to us an integrated package of principles about directors' board, the way of its formation, relations with shareholders and executive management, also audit and disclosure of information and the rules of choosing and dismissing directors and responsible of the executive administration. The practice of these concepts differs from one country to another, overall there are two international models for corporate governance practices: the Anglo-Saxon model which is applied in USA, the second model is the Germano-Nippon which is applied in Germany and Japan, each model has its characteristics and basics depending on the nature of the economic and legislation environment of each country.

Small and medium sized enterprises have a very important place in the economies of countries weather in developed ones or in developing countries. Despite the huge number of SMEs in Algeria; however, many researchers and responsible critic the weak n with different situations and variables are considered among the most causes of failure for these kind of companies.

The request of corporate governance in Algeria has become an urgent necessity for SMEs so as to achieve good level of development in different perscontribution of SMEs in terms of supporting the national economy or in increasing the production out hydrocarbures or even in covering the national demand, without forgetting the bankruptcy after a short period of activity for financial reasons most of the time. The problem of management and good interactiopectives and mechanisms. In fact, there is a good intention from the Algerian authorities to bring and install the good practices of corporate

governance which are relevant to Algerian environment, In 2007, first international meeting about good governance for companies was held in Algeria, this meeting was a favorable opportunity to gather together all the actors of companies, beside it was a start to crystalize the concepts related to the corporate governance system in Algeria which is adequate only with the characteristics of Algerian SMEs. In this regard, in 2009, the Algerian chart of corporate governance named as "good corporate chart" was released, this chart is mainly dedicated to SMEs and contains the most principles to be followed so as to maintain a good and successful practices of corporate governance.

Problematic:

Depending on the above and as result of the challenges that would face the Algerian SMEs in terms of practicing corporate governance, we had the intention to recognize the good model of corporate that may be relevant to SMEs in Algeria, our research is dealing with the following question:

What is the appropriate model of governance for the Algerian small and medium sized enterprises?

To get answer for this main problematic and to facilitate the research process we ask the following sub-questions:

- ✓ What do we mean by SMEs and what is its place and importance in Algeria economy?
- ✓ What is the definition of corporate governance and what are its principles?
- ✓ What are the recognized models of corporate governance and what is the fact of corporate governance practices in Algeria.

Hypothesis: After being studied the literature review concerning the corporate governance and SMEs sector, we may give the following hypothesis, so as we will be able to test it in the empirical part:

- ✓ The structure of property is tending toward dispersion.

- ✓ There is a good relationship between the internal actors in the company.
- ✓ The relationship between the company and the external actors is not enough good.

Importance of the study: the importance of this study is that it tackles and focuses on the theme of corporate governance in the Algerian SMEs by having an empirical study so as to clarify the reality of management in the Algerian enterprises for the objective to determine the appropriate model of governance, as this private sector is the key pillar for the Algerian economy growth, it will give an addition in term of bringing and giving the chance to the Algerian authorities and to the enterprises leaders a clear view of corporate governance practices and basics.

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.

Literature review:

In this part we will have an overview on corporate governance concepts and small and medium scale enterprises perspectives so as to illustrate our study and present perceptions on the theoretical side of our research axes. In fact, there are many studies that tackled the subject of corporate governance and SMEs from different sides.

Previous studies:

We have taken into account some previous studies related to this paper for the object to illustrate the important results reached up to

date so as to make the study relevant and have a value, we set bellow studies that helped us to take part in the looking of our main issue.

The study of Ghodban Hossam Eddine," A contribution in proposing a model of governance for the Algerian economic companies", thesis of doctorat, 2012.

In this study the researcher tried to contribute in proposing a model of governance for the Algerian economic companies, so that this model would be adequate to the local environment and is basically based on the principles of organization for economic cooperation and development, especially since there is not an international unified model of governance. This research represents an attempt to tend and focus on the practical side of corporate governance through making points over the fact of its practices, then go forward to define the principles of the proposed model of governance for the Algerian economic companies. The study has taken place in 4 economic companies so called: Ngawse, Cevital, Rouiba and Alliance. The researcher used Questionnaire to collect date and has used SPSS to analyze the collected data, after the analyzing and inferential process the researcher arrived to shape a model of governance relevant to the characteristics and request of the Algerian economic companies.

The study of Saoud Wassila, "corporate governance as a tool to increase the Algerian SMEs performance", doctoral thesis, 2016

the researcher in this study aimed to determine the contribution of corporate governance in enhancing the performance of the Algerian SMEs. The study had two sides: theoretical and empirical side, in the theoretical part the author tackled the different clarifications about corporate governance, small and medium scale enterprises and the enterprise performance, with the reference to the fact of corporate governance in the Algerian SMEs and its contribution on the economy building. Otherwise, in the empirical side, the researcher analysed the result of 150 questionnaires distributed on a sample consist of 150

SMEs, the questionnaires questions were headed to the enterprises chiefs and the seniors administrators. The results of this study were as follows: most of the Algerian SMEs confirmed that the implementation of corporate governance would enhance the performance at all levels whether the single or general of the enterprise, and there is a clear acceptance to adopt this system, but in condition to provide the convenient environment for that like the good formation and awareness of the importance and benefits of corporate governance.

The study of S.M. yazide, B,abd ouahab, “ the reality of corporate governance in Algeria; an empirical study on joint-stock exchange companies”, published article.

In this study the writer tried to identify the fact of corporate governance in Algeria for the joint-exchange companies in order to know the degree of concordance between the practice of corporate governance in this enterprises and the principles of OECD and the principles of Algerian corporate governance code, the researcher used a questionnaire to make his study in which he delivered 50 copies on the internal auditors and the board council members. The result was that the companies in which the study was done apply the principles of corporate governance released by OCED and apply also the principles of the Algerian corporate governance code.

The study of Abdelouahab Dadene and others, "The Determinants of CSR in Algerian SMEs: an empirical and exploratory study", published article, 2013.

The objective through this study was to determine the concept of CSR in Algerian SMEs. The question that guided this research was to know how SMEs' managers perceive the concept of CSR. And the main hypothesis of this research was: "knowing the perception of the concept of CSR which allows leaders to better conduct any program of mainstreaming CSR into the business." For that this research depended on a quantitative analysis through a survey conducted with 86 Algerian SMEs from January 2012 to May 2012. The obtained

results have helped to determine and develop CSR concept, as well as these results have allowed proposing a scheme of analysis to improve social and environmental commitment in Algerian SMEs. Hence, the action of Algerian SMEs in favor of socio-environmental commitment is primarily motivated by mainly regulatory issues.

The study of Kherraf Houria, " the governance of familial corporate: study the Algerian case.", Magister's memory, 2014 .

The researcher tried to tackle the issue of corporate governance on the familial firms in Algeria, he started from the point that the familial firms have a specific nature because it is owned and managed by members of the family, so he tried to clarify the mode of governance of this kinds of firms in Algeria knowing that the majority of Algerian firms are family ones. He made an empirical investigation in the NCA company so as to find the mode of governance of this family company, the result was that there are many changes and adjustments in the system of governance for the family companies and the problem of succession has a huge impact for the strategy of development undertaken by the company, also the management system inside the company is different and has a tough relation with family nature, the relationship between the stakeholders is determined in a tight space not giving the total freedom for them to share their opinions and suggestions.

The study of Salah Ben Hamad," The SMEs Governance Mechanisms Practices and Financial Performance: Case of Tunisian Industrial SMEs", published article, 2011.

The researcher main objective in this paper consists in highlighting the interaction dominating the governance relating mechanisms, namely, the directors' characters, the ownership structure and the directors' board regarding the SME performance. An examination of the tests conducted on a sample constituting of 50 Tunisian SMEs has shown that both the ownership structure and the board of directors play a paramount role in improving the SME

performance. The results have also indicated that the directors' do not greatly affect the performance owing to several careers related to the outside external environment of the SME

What makes the results of this study different from the previous studies?

The result of this study are different from the others because we are focusing in paper on the corporate governance practices in the Algerian SMEs, more specifically we intend to identify the appropriate model of governance practices in the Algerian SMEs sector, so the obtaining result are about the characteristics and determinants of governance model for SMEs.

Theoretical part:

I. Corporate governance:

Corporate governance is defined as the management and control system of an organization, in accordance with the principles and best practices in this field. At the entity level, it seeks the way to structure the distribution of power and responsibilities among shareholders, directors and the management. Today, the concept is used to describe the action of governing, the manner of managing, administering, in the states, world organisms, but also businesses. Mainly, it seeks how the power of various factors of decision and control can be balanced and the tools for both shareholders and other stakeholders in the capital of an entity can be implemented⁽¹⁾. Corporate governance deals with the agency problem: the separation of management and finance. This basic agency problem suggests a possible definition of corporate governance as addressing both an adverse selection and a moral hazard problem.

I.1 Definition of corporate governance:

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

(1) Mihaela Ungureanu, *Models and practices of corporate governance worldwide*, CES working papers, Alexandru Ioan Cuza University of Iași, România, 2013, p:625.

from different perspectives.

The traditional definition of corporate governance was such a narrow view as Shleifer and Vishny (1997) mentioned that the ways in which the suppliers of finance to corporations assure themselves of getting a return on their investment. Recent trend, however, express doubts on the definition that solely focuses on shareholder value⁽¹⁾. It was defined as:

"a good management of internal company and careful decision of resource allocation can reinforce company performance"⁽²⁾. 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"⁽³⁾. Others writers have given definitions to the corporate governance as follows:

The relationship between shareholders, creditors, and corporations; between financial markets, institutions and corporations; and between employees and corporations. Corporate governance would also encompass the issue of corporate social responsibility, including such as aspects as the dealings of the firm with respect to culture and the environment"⁽⁴⁾.

the most appropriate definition which is more relevant to small

(1) Hirotsugu.S, Hitoshi.A, *the Japanese corporate governance system and firm performance toward sustainable growth*, research center for policy and economy, Mitsubishi research institute, inc, Japan, January 2003, p:01.

(2) Kogilavani Apadore, Siti Subaryani Binit Zainol, 2014, "*Determinants of corporate governance and corporate performance among consumer products industry in Malaysia: A theoretical model*" , International Journal of Academic Research In accounting, finance and management sciences, vol 4, N.02, p.160.

(3) Mimouni yassine, 2012, *the development of SMEs and the good governance*, magister memory, university of Telemcen, p: 15.

(4) Linda shaw, *overview of corporate governance issues for co-operatives*, discussion paper for the working meeting on corporate governance and co-operatives, London, 8 february 2007, p:01.

and medium size enterprises (SMEs) describes corporate governance as "a set of rules, regulations and structures which aim to achieve optimum performance by implementing appropriate effective methods in order to achieve the corporate objectives". In other words, corporate governance refers to internal disciplines or systems, which govern the relationships among 'key players' or entities that are instrumental in the performance of the organization⁽¹⁾.

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.

In Algeria, there are many scholars who tackled the issue of corporate governance in general and corporate governance in small and medium size enterprises, we may list some of definitions given by Algerian scholars to corporate governance concept, although the opinion differ from one person to another according to the side by which he defines corporate governance:

Corporate governance in SMEs is defined as: "all the procedures and schedules used to run and manage the internal affairs of the enterprise, aiming to increase its value at the long term which will bring benefit to the investors and guarantees the financial safety"⁽²⁾.

According to Hossam Ghodban: corporate governance in Algeria Aims to regulate the relation between stakeholders in the enterprises, thus it represents 3 major trends: firstly, the narrow trend which focus on the necessity to make governance in favor of shareholders by reducing the cost of capital. Secondly, the huge trend

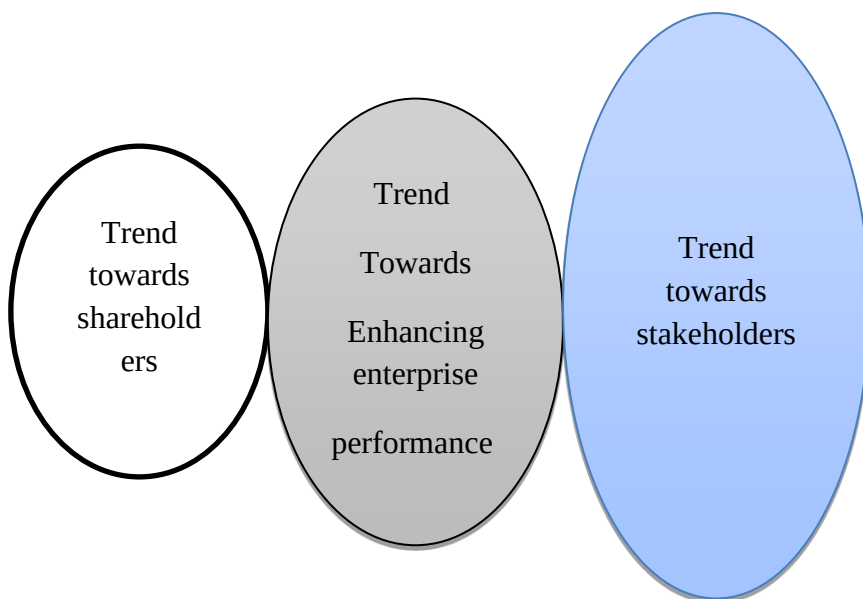
(1) Wimbiz articles, ***Importance of corporate governance for SMEs***, retrieved from: <http://www.articlesbase.com/small-business-articles/importance-of-corporate-governance-for-smes-917533.html>

(2) Saoud Wassila, 2016, ***corporate governance as a tool to increase the performance of SMEs***, doctoral thesis, university of Mssila, Algeria, p:17.

which focus on the necessity to enhance the enterprise's performance as it is a source of wealth's creation. Finally, the global trend which adds another responsibilities to corporate governance as the engagement of the social responsibility, business ethics"⁽¹⁾.

The following shape shows the trends of corporate governance in Algeria:

Shape 01: Trends of corporate governance in Algeria.



Source: prepared by the student.

I.2 corporate governance principles:

First published in 1999 and subsequently revised in 2004, the OECD in publishing its elements of corporate governance, took into account the views of many different countries on the subject of what constitutes good corporate governance.

(1) Houssam Eddine Ghodbane, "contribution in the suggestion of a model of corporate governance for the Algerian economic enterprises", doctoral thesis, university of Bisikra, Algeria, 2014, p:5.

The OECD states "the primary role for regulation is to shape a corporate governance environment compatible with societal values that allows competition and market forces to work so that corporations can succeed in generating long-term economic gain. Specific governance structures or practices will not necessarily fit all companies at all times (OECD, 1999).

The OECD identifies the following key elements of good corporate governance:

1. The rights and obligations of shareholders;
2. Equitable treatment of shareholders;
3. The role of stakeholders and corporate governance;
4. Transparency, disclosure of information and audit;
5. The board of directors and Non-executive members of the board;
6. Executive management, compensation and performance.

The main theme of the above principle lies in four basic principles. Firstly, the issue of business ethics and compliance, secondly the adequacy of the business decision making mechanism, thirdly adequate disclosure and transparency and fourthly financial control and administration (keeping and financial accounting). These OECD principles are so sound that even the non-members of OECD are implementing and adopting. Morck (2005) states that the soundness of these principles has been proved by its adoption all over the world.

1.3 corporate governance models:

Corporate governance systems vary around the world. This is because in some cases, corporate governance focuses on the link between a shareholder and company, some on formal board structures and board practices and yet others on social responsibilities of corporations. There is no one model of corporate governance which is universally acceptable as each model has its own advantage and disadvantages.

A *model* for governance represents an approach to the combination of the following elements: Policies, systems, Structures and a strategic/operational framework. there are considerable differences in the kinds of Board in the world today. And these unique forms of governing bodies drive specific considerations to the application of different models⁽¹⁾. In each country, the corporate governance structure has certain characteristics or constituent elements, which distinguish it from structures in other countries. To date, researchers have identified three major models of corporate governance in developed capital markets. These are the Anglo-US model, the Japanese and the German model.

Each model identifies the following constituent elements: key players in the corporate environment; the share ownership pattern in the given country; the composition of the board of directors (or boards, in the German model); the regulatory framework; disclosure requirements for publicly-listed stock corporations; corporate actions requiring shareholder approval; and interaction among key players.

I.3.1 The Anglo-Saxon Model:

This model is also called Anglo-American Model and is used as basis of corporate governance in USA, U.K, Canada, Australia and some common wealth countries. In this Model:

- ✓ The shareholders appoint directors who in turn appoint the managers to manage the business. Thus there is separation of ownership and control.
- ✓ The board usually consist of executive directors and few independent directors. The board often has limited ownership stakes in the company. Moreover, a single individual holds both the position of CEO and chairman of the board.

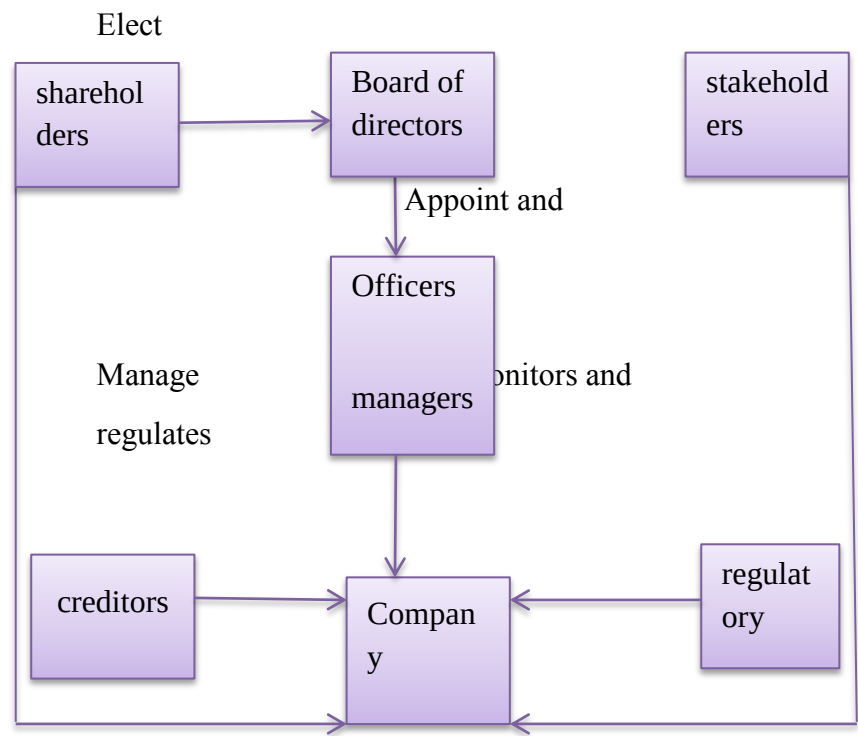
Anglo-Saxon model is characterized by the dominance in the

(1) Leadership Acumen, Models of corporate/board governance, Doug Macnamara and Banff executive leadership Inc, issue 21, April/May 2005, USA, p:01.

company of independent persons and individual shareholders. The manager is responsible to the Board of Directors and shareholders, the latter being especially interested in profitable activities and received dividends. It ensures the mobility of investments and their placement from the inefficient to the developed areas, but it however feels a lack of strategic development⁽¹⁾. In the United States, the board of directors served as the most important controlling mechanism to ensure that the management of publicly traded corporations acted in the interest of shareholders.

The following shape shows the components of the Anglo-Saxon model:

Shape 02: Anglo-Saxon Model of governance.



Source: <https://www.slideshare.net/dushyantmaheshwari9/dushyantmaheshwari-29002722>

(1) Mihaela Ungureanu, OP.CIT, P:02.

I.3.2 The Japanese model:

The Japanese model brings, as a new, the holding concept, which designates industrial groups consisting of companies with common interests and similar strategies. This model is called as the business network model, usually shareholders are banks/financial institutions, large family shareholders, corporate with cross-shareholding.

The Japanese model is characterized by⁽¹⁾:

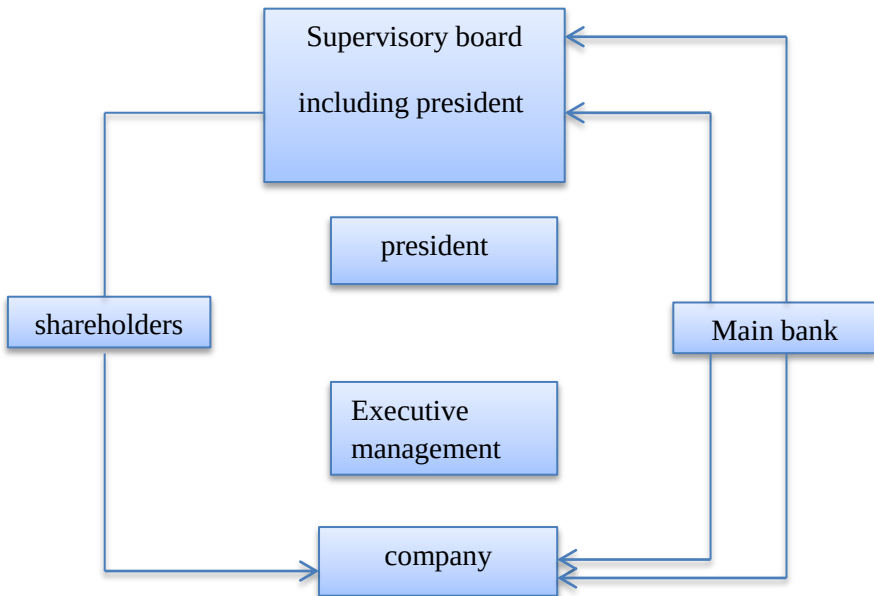
- ✓ A high level of stock ownership by affiliated banks and companies;
- ✓ A banking system characterized by strong, long-term links between bank and corporation;
- ✓ A legal, public policy and industrial policy framework designed to support and promote "keiretsu";
- ✓ Board of directors compose almost solely of insiders;
- ✓ A comparatively low level of input of outside shareholders.

The key players in the Japanese model are:

- ✓ Main bank (a major inside shareholders);
- ✓ Affiliated company or Keiretsu(a major inside shareholders);
- ✓ Management;
- ✓ Government.

The following shape distinguish the main components of the Japanese model:

(1) <https://prezi.com/pqzqmy3igj2z/models-of-corporate-governance/>

Shape 03: Japanese model.

source: <https://www.slideshare.net/aditieedeshpande/models-of-corporate-governance-61011940>

I.3.3 The German model:

The German corporate governance model differs significantly from both the Anglo- Saxon and the Japanese model, although some of its elements resemble the japanese model.

The German model is characterised by⁽¹⁾:

- ✓ Supervisory board oversees the management board and appoints its members;
- ✓ Chairman of the supervisory board is representative of the shareholders;
- ✓ Deputy chairman is a representative of the employees;

(1) <https://www.slideshare.net/josephsebastiankinattukara/models-of-corporate-governance-54353220>

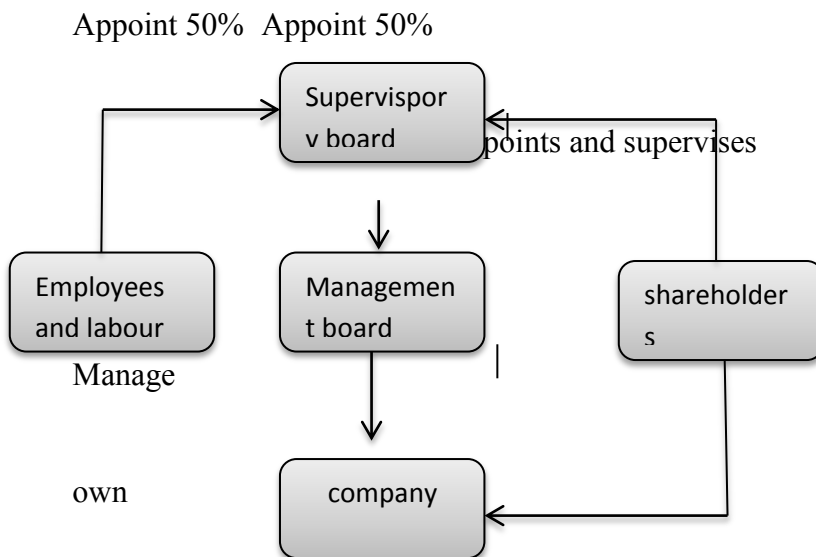
- ✓ Members of supervisory board are not involved in the day to day management of company;
- ✓ Management board is made up of executives inside the company;
- ✓ The board of management is responsible for managing the company and representing it in its dealings with third parties.

The key players in the German model are:

- ✓ German banks;
- ✓ Corporate shareholders.

The following shape determines the components of the German model:

Shape 04: the german model.



source: <https://www.slideshare.net/aditieedeshpande/models-of-corporate-governance-61011940>

There are three unique elements of the German model that distinguish it from the others models outlined in this article. Two of

these elements pertain to board composition and one concerns shareholders's rights⁽¹⁾:

- ✓ First, the German model prescribes two boards with separate members. German corporations have a two-tiered board structure consisting of a management board(composed entirely of insiders, that is, executives of the corporation) and a supervisory board (composed of labor/employee representatives and shareholder representative).
- ✓ Second, the size of the supervisory board is set by law can't be changed by shareholders.
- ✓ Third, in Germany and othe countries following this model, voting right restrictions are legal, these limit a shareholder to voting a certai percentage of the corporation's total share capital, regardless of share ownership position.

II. Small and medium size enterprise:

II.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

(1) <https://www.slideshare.net/josephsebastiankinattukara/models-of-corporate-governance-54353220>

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⁽¹⁾.

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.

II.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⁽²⁾:

- 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.

(1) Asma Benzazoua Bouazza, small and medium enterprises as an effective sector development and employment creation in Algeria, journal of economics, commerce and management, vol. 3, issue 2, united kingdom, 2015, p: 03.

(2) Youcef Ali Alia, The Effectiveness of Small and Medium Enterprises Adoption as a Strategic Option to Solve Unemployment Problem in the Arab World, an Example of Algeria, International Journal of Business and Social Science, vol. 5, No. 4, Center for Promoting Ideas, USA, march 2014, p: 167.

- 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 establishes 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.

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.

III.1: 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 of the following principles⁽¹⁾:

- **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.

III.2: Problems of corporate governance in Algeria

The Algerian are suffering from many troubles related to different sides, whether is internal or external problems. In fact the main problems are known and clear, we can cite them as bellow:

Global problems: the following table show the essential troubles that face the Algerian companies mainly the small and medium size enterprises:

(1) Algerian Ministry of Small and Medium Enterprises and Traditional handicrafts, the Algerian code of corporate governance, 2009, p: 27.

Table 01: the global problems of corporate governance for the Algerian SMEs

	SMEs plagued with difficulties of survival	SMEs in line with the challenges of growth
Relations between stakeholders	Enterprise owners are the managers too, the two positions are always confused and have an opacity result extends to the relations with the others.	The differentiation between owner and manager is relatively defined better, even though the two functions are cumulated, the quality of relations between the other stakeholders carries on.
The veracity of enterprises results.	The weak of management rules do not allow establishing with certainty the exactitude of enterprises results.	The existence of management rules that help of identifying the company results, but the problem of veracity can be posed.
The situations of transmission and succession	The problems of transmission and succession are generally not anticipated, and when they appear the company find itself sticky in inextricable situations that may lead it to danger.	The transmission and succession problems are better anticipated but their treatment does disrupt the company performance.
The strategy-interests articulation of the enterprises	The company is not able to project in the future, its interest is about to ensure survive day per day.	The company are able to build a strategy, but the tight articulation with their interests deserves to be consolidated and refined.

Source: see the Algerian corporate governance code, edition 2009.p:23.

Beside to the mention problems, the Algerian companies may have other troubles inside or outside the enterprises; we may set some of them as bellow:

- The formation of board of directors and there is n segregation between board of directors function and executive administration function and enterprises management function, the level of control too and the number of council meetings.
- **Board of director's members:** Lack of appropriate number of independent non-executive members of director's board to be able to present autonomous opinions and efforts stemming from their sense of responsibility.
- **Board of director's committees:** The most important is audit committee, nominations and remunerations committee and to what scope is their efficiency and independency, the available or not of independent non-executive members on both committees.

Also, the general environment of investment in Algeria is not appropriate hence has non-existence of laws and instructions that organize the economic activity. Furthermore, there is no law that guarantee the good practice of corporate governance in companies and give it the commitment nature in condition not to be confused with the current laws.

III.3: Procedures of enhancing corporate governance in Algerian SMEs:

In order to establish a good practice of corporate governance, the enterprise must be depend on a package of measures so as to promote and improve its performance, we distinguish between short term and long term measures.

a. Short term measures:

The enterprise have to fellow a written policy addicted to corporate governance, this policy have to be disclosed and released by

the company. On the other hand, the manner of how to form the board of director, the role of its members and their special skills must be clear, the company is recommended too to for a consultant board of director. In addition, the relation and communication between minor shareholders need to be evident; it is the same for the disclosure and accounting systems. On the other side, the enterprise is obliged to appoint independent auditors and announce a timetable about everything to happen inside it⁽¹⁾.

- The policy of corporate governance states to provide an advisory board of director formed of three or four members, the purpose from this is to bring help in term of taking decision by enlightening the administration and board of director with independent objective opinions, otherwise providing to the shareholders potential nominees to work as independent members of director's board.
- The company appoint a managing member of director's board between the existence experts in the market.
- The company fellows an environmental social policy towards the citizen and must disclose and release about this policy.
- The policy of the company must ensure the equitable treatment for the minor shareholders.

b. long term measures:

The policy of corporate governance works on appointing an consultant board of directors within one year, and this consultant board held four sessions in the year, the company must have a timetable and documents for the fundamental meetings and must be given to the consultant board of director before the meetings appointments, in which of policy of corporate governance states the followings issues:

(1) Center for international private enterprise, corporate governance issues and trends, periodical, N: 13, 2009, p: 10.

- An independent and non-executive member from the board of director must be appointed within two years, and he might be a member in the consultant board of director.
- The company must disclose about their engagement of corporate rules in their annual report.

III.4: The challenges of SMEs in term of corporate governance

The Algerian SMEs face in term of corporate governance practices a lot of challenges, we might point out at some of the in the following statements:

A. How to ameliorate the relation with bank: the company is in front of a big challenge to enhance their relation with financial administration, the banks do not trust in financial statement for the Algerian companies that is why they do not give funds to them, otherwise the enterprise need to break these barriers by practicing corporate governance principles and establish a relation of trust with the bank so as to get the sources of funding.

B. How to bring external investment to the initial core for the familial enterprise:

Almost the Algerian companies are familial which stands against bringing external investors to the company, so they need to open the door for the foreign investors so as to bring other sources of capital and to spread the activity of the company, and do not enact instructions that restrain investors to take opportunity of investment.

C. How to establish a relation of trust with fiscal administration:

The relation between the enterprises and the fiscal administration has to be trustful so as to give freelance and liberation for the company and boost their transparency and disclosure.

D. How to clarify the relation between shareholders:

A lot of companies suffer from internal conflicts between the shareholders in term of different issues related to the strategy undertaken by the company which is obliged to figure out solutions to these internal conflicts between shareholders.

E. How to clarify the responsibilities between the executive team:

A huge number of enterprises may face the dilution of the responsibilities, sometime there are exceed in responsibilities between the executive team, these may cause and lead to internal conflicts between the responsibilities of the executive team and the shareholders, so the practice of corporate governance will identify the responsibilities and functions of everyone on the company hence will fight against this kind of conflicts inside the company.

F. How to adjust the succession problem:

This may be the most crucial for the companies in Algeria due to the familial nature of the most companies; a lot of firms can't manage the situation after the death of the founder, that because of the absence of laws inside the firms that organise such kind of issue related to the succession matter, so firms are against challenges to put in clear and determined rules and instructions to organize this process.

Empirical part:

After being discussed the theoretical sides about corporate governance and small and medium size enterprises, we come to accomplish our study by empirical investigation so as to identify the characteristics and components of the model of governance for the Algerian SMEs enterprises. In this part we will test also the reliability of hypothesis.

Research methodology:

The approach taken in the study: this study is about a survey on some joint-stock companies and limited liabilities companies in the

region of "CHLEF, Sidi Belabass", we decided to follow this approach after long field investigations, hence we arrived to a result that this kind of companies is the most suitable for our study due to the characteristics that distinguish this enterprises which will help us to reach our main objective from this study.

The study population: the population of our study is made of all the joint-stock and limited liability companies in the region of CHLEF and Sidi Belabass.

The study sample: the sample of our study is made of 15 companies; we have targeted the most actor members in these companies especially the shareholders, stakeholders, the members of executive team, the owners. We have delivered 75 questionnaires but we have recovered only 67 ones, 3 questionnaires were ousted because the answers were not suitable for the treatment, the other 5 were lost.

Tools of collection data: there are many tools to help gathering data so as to be treated statistically and transform it from the qualitative form to the quantitative form; in our study we used the questionnaire because it is the suitable tools for such kind of studies.

Questionnaire: the questionnaire is formed of five main sections, was divided along the study request and hypothesis:

First section: this part is dedicated to the personnel information of the interviewees; it is about the demographic data.

Second section: this part is about the fact and reality of corporate governance practices in the targeted companies, it contains 9 questions.

Third section: is made of 8 questions, this part is dedicated to identify the ownership's structure and the role of partners in the companies.

Fourth section: this part contains 29 questions and is about to distinguish the internal actors and there mutual relation inside the company.

Fifth section: this part focuses on the external actors and their

mutual relation with the company, it contains 11 questions.

The questions were easy and clear so as to facilitate the answer.

To check the stability and trust of the questionnaire, “Cronbach alpha” is used, so its value was found 0.71. It means that the coefficient of stability is good. In order to check he trust, the square racing on “cronbach alpha” coefficient is entered and it is value was found 0.84. The following table clarifies this.

Table 2: stability coefficient (Cronbach Alpha)

Questions number	Cronbach alpha
57	0.71

Source: prepared by student from SPSS 20 outputs.

The Sample Features Analysis:

The features of the sample were analysed in order to define the demographic variables and how people of the sample are divided according to each variable, the result indicates that:

- Among 67 interviewees, 51% have academic qualifications, 32% have licence diploma, 10% have engineering diploma, and 7% have high level.
- Among 67 interviewees, 54.8% have enough experience, 29.2% between 5 to 15 years of experience, and 16% more than 15 years of experience.
- Among 67 interviewees, 40.4% are administrative workers, 32.3% are board of director’s members, and 27.3% are executive team members.

Analysis the data of the study:

In this section we will analyse each part of the questionnaire leaning on the arithmetic median and the standard deviation, the median between (1 to 2.5) means the level of answer is low, between (2.5 to 3.5) means the level of answer is intermediate, between (3.5 to 5) means the level of answer is high.

1. The fact of practicing governance in the company

Table3: the results of the first section questions' opinion.

Questions	Median	Deviation Standard	Opinions	Question	Median	Deviation Standard	Opinions
01	3.63	0.896	high	06	3.54	0.902	high
02	3.71	0.923	high	07	4.31	0.946	high
03	2.98	0.789	Intermediate	08	3.26	0.785	Intermediate
04	3.21	0.857	Intermediate	09	4.20	0.825	high
05	2.65	0.869	Intermediate				
Total					3.49	0.865	intermediate

Source: prepared by the student from the SPSS 20 outputs.

Analysis: we notice from the above table that the level of corporate governance practices has an arithmetic median equal to (3.49) with a standard deviation equal to (0.865), according to the study measure, this indications mean that the average of acceptance is a bit intermediate, so the interviewees agree conservatively the company do practice corporate governance, then this information refers that these companies are trying extensively to reach to a good level of corporate governance; besides, this information helps us to identify appropriate model of governance for SMEs.

2. The structure of ownership in the company and the role of partners

Table 4: the results of the second section questions.

Questions	Median	Standard Deviation	Opinion	Question	Median	Standard Deviation	Opinion
01	1.98	0.785	low	05	4.54	0.716	high
02	4.32	0.874	high	06	2.63	0.837	Intermediate
03	4.63	0.902	high	07	3.56	0.793	high
04	2.21	0.804	low	08	2.04	0.971	low
Total					3.23	0.835	Intermediate

Source: prepared by the student from the SPSS 20 outputs.

Analysis: from the table 4, it is clear that the scope of the structure of ownership in the company has a Median equal to 3.23 with standard deviation equal to 0.835, according to the measure of study the scope refers to an intermediate rate of acceptance, where the medians were between (1.98 to 4.63) and their standard deviations were between (0.716 to .971), and that means the individuals of research sample intermediately have a clear overview about the tendency of ownership and the role of partners. So the structure of ownership is a bit determined and clear which would help us to make points over this side in the intended model of governance, the same is for the role of partners as the questions of this part allowed us to clarify in an intermediate level their roles in the company.

3. The internal actors and their mutual relation

Table 5: the results of the third section questions' opinion.

<i>Question</i> <i>n</i>	<i>Median</i> <i>n</i>	<i>Standard</i> <i>Deviation</i> <i>n</i>	<i>Opinion</i>	<i>Question</i> <i>n</i>	<i>Median</i> <i>n</i>	<i>Standard</i> <i>Deviation</i> <i>n</i>	<i>Opinions</i>
01	2.74	0.711	Intermediate	16	4.02	0.753	high
02	1.78	0.822	low	17	4.22	0.962	high
03	3.25	0.921	Intermediate	18	3.78	0.712	high
04	2.26	0.725	low	19	2.33	0.608	low
05	2.65	0.802	Intermediate	20	1.85	0.922	low
06	3.78	0.705	high	21	3.61	0.741	high
07	4.65	0.966	high	22	2.44	0.689	low
08	3.62	0.948	high	23	2.69	0.898	Intermediate
09	2.68	0.905	Intermediate	24	2.07	0.745	low
10	1.47	0.717	low	25	2.98	0.603	low
11	4.23	0.695	high	26	3.45	0.614	high
12	4.66	0.805	high	27	2.16	0.711	low
13	3.36	0.647	Intermediate	28	3.25	0.823	Intermediate
14	3.22	0.785	Intermediate	29	2.03	0.795	low
15	1.66	0.863	low				

Total					2.99	0.779	intermediate
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Source: prepared by the student from the SPSS 20 outputs.

Analysis: The data shown in the table 4 indicate that the arithmetic median of the section three questions is equal to (2.99) with standard deviation equal to (0.779), according to the measure of study the scope refers to an intermediate rate of acceptance, where the medians were between (1.47 to 4.66) and their standard deviations were between (0.716 to 0.603), that refers that the interviewees agree in an intermediate level about the questions related to the role of internal actors inside the company and about the characteristics of their mutual relations, this would also help us to build and define the appropriate model of governance for SMEs in Algeria.

4. The external actors and their mutual relation with company

Table 6: the results of the fourth section questions' opinion.

Question	Median	Standard Deviation	Opinion	Question	Median	Standard Deviation	Opinion
01	3.28	0.625	Intermediate	07	4.02	0.923	high
02	2.36	0.748	low	08	3.87	0.752	high
03	1.95	0.734	low	09	3.77	0.669	high
04	4.21	0.916	high	10	2.38	0.754	low
05	4.27	0.837	high	11	2.17	0.823	low
06	3.58	0.821	high				
Total					3.26	0.782	intermediate

Source: prepared by the student from the SPSS 20 outputs.

Analysis: The data shown in the table 4 indicate that the arithmetic median of the section four questions is equal to (3.26) with standard deviation equal to (0.782), according to the measure of study the scope refers to an intermediate rate of acceptance, where the

medians were between (1.95 to 4.27) and their standard deviations were between (0.625 to 0.923), that refers that the interviewees agree in an intermediate level about the questions related to the role of external actors and their mutual relationship with the company, so the interviewees agree a bit about the kind of this mutual relationship and also the role and position of external actors in the company, the information of this part would also help us to shape and form the components of governance model.

Hypothesis test:

To test the hypothesis we used the Parson’s coefficient in an indication level equal to ($\alpha=0.05$), the size of sample equal to ($N=67$).

The first hypothesis: The structure of property is tending toward dispersion.

Table 7: the result of the first hypothesis test.

Data		Governance practices
The structure of property in the company	Correlation coefficient	3.74
	α	0.125
	N	67

Source: prepared by the student from the SPSS 20 outputs.

From the table 12 the level of indication equal to ($\alpha=0.125$) and that is more than (0.05), the correlation coefficient equal to ($R= 3.74$), so there is a negative correlation relation statistically significant at a level of indication equal to ($\alpha=0.05$), this leads us to deny the first hypothesis which is the structure of corporate governance is tending toward dispersion, so the structure of property in Algerian small and medium sized enterprise is a bit centralised and that obviously is due to the familial pattern.

The second hypothesis: The relationship between the company and the external actors is good.

Table 08: the result of the second hypothesis test.

Data		Governance practices
Internal actors and their mutual relationship	Correlation coefficient	2.68
	A	0.017
	N	67

Source: prepared by the student from the SPSS 20 outputs.

From the table 13 the level of indication equal to ($\alpha=0.017$) and that is under (0.05), the correlation coefficient equal to ($R= 2.68$), so there is a positive correlation relation statistically significant at a level of indication equal to ($\alpha=0.05$), this leads us to the result to accept the second hypothesis which is the relation between the company and external actors is good.

The third hypothesis: There is a good relationship between the internal actors in the company.

Table 09: the result of the third hypothesis test.

Data		Governance practices
External actors and their mutual relationship with the company.	Correlation coefficient	2.88
	A	0.000
	N	67

Source: prepared by the student from the SPSS 20 outputs.

From the table 12 the level of indication equal to ($\alpha=0.000$) and that is under (0.05), the correlation coefficient equal to ($R= 2.88$), so there is a positive correlation relation statistically significant at a level of indication equal to ($\alpha=0.05$), this leads us to the result to accept the third hypothesis which that there is a good relation between the internal actors "inside the company.

Components of the Algerian Model of corporate governance:

After having analysed the data the above questionnaire and after the inferential statistics that led us to determine and shape the key pillars that would form the model of governance for SME's in Algeria, the following

presents the main elements that consists our model of governance:

Internal actors: they are board of directors or even partners, shareholders and stakeholders.

Relation between internal internal actors: there are a relation of integrity, responsibility, fairness and accountability.

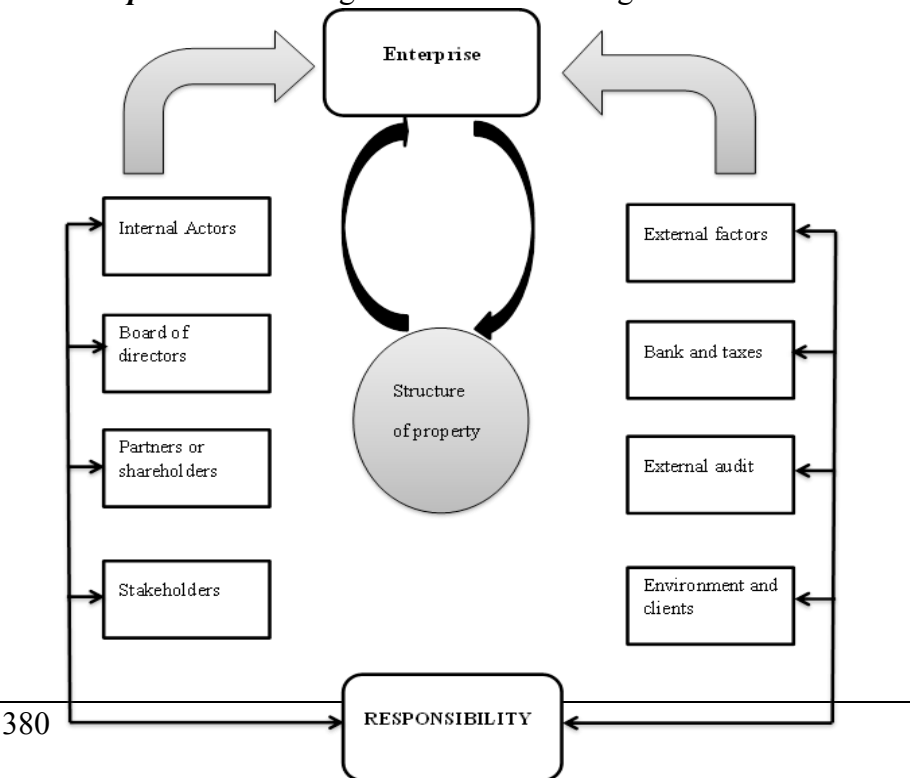
External actors: they are service of taxes, external *audit*, *bank*, *clients and environment*.

Relation between external actors and the company: there are a relation of commitment and fairness.

The structure of property in the company: which is a bit centralised due to familial pattern.

According to the above key pillars that build and consist the model of governance in Algerian Small and medium sized enterprise, we can design the following shape which represents the main element that would form the model of governance:

Shape 05: model of governance for the Algerian SMEs.



Source: prepared by the student.

Conclusion and recommendation:

Corporate governance system in Algeria has recently witnessed an important escalation in terms of providing more efforts and giving new approaches to enhance its practices among the Algerian enterprises whether private or public ones. However, corporate governance is not related only with big enterprises, in fact, SMEs are also targeting to benefits from this new managerial system. As in Algeria the SMEs are considered to be the largest tissue of enterprises mode, therefore corporate governance begins to maintain its pillar inside the Algeria SMEs. They are seeking to find the best ways to implement corporate governance so as to get the utmost benefit from corporate governance, so the objective is not only to show that the enterprise is implementing corporate governance practices but to enhance the system of management of the enterprise on the other hand.

Through this paper in both the theoretical and empirical part we did shed light on the corporate governance practices on the Algerian small and medium sized enterprise where the objectives was to determine and identify an appropriate model of governance for this important sector, this paper has come to a set of results as the following:

- Corporate governance practices inside the enterprise is a bit good and that is a positive indication for enterprises to boost forward governance inside and outside its environment.
- Corporate governance model for Algerian SMEs is based on the following elements:
 - ✓ Internal actors: board of directors, partners or shareholders and stakeholders;
 - ✓ External actors: bank and taxes services, clients, audit service and environment;

- ✓ Structure of property which is basically related to familial pattern;
 - ✓ The mutual relation between internal actors inside the enterprise;
 - ✓ The mutual relation between external actors and the enterprise.
- The relation between internal actors is a relation of fairness, responsibility, integrity and accountability.
 - The relation between external actors and the enterprise is a relation of commitment and fairness;
 - The structure of property is basically based on the familial pattern of the enterprise.

According to the result of this paper, we may give the following recommendation:

- ✓ the Algerian SMEs have to increase and develop an honest and ethical relation with all the stakeholders: employees, customers, banks and the taxes administration.
- ✓ the implementation of sound corporate governance in the Algerian SMEs have to be determined through two aspects: the first one is related to the ministry in commandment as it is considered the main actor to provide the suitable environment and the motivator for that, the second aspect is through the enterprises themselves and that will definitely inhibit the administrative corruption phenomenon.
- ✓ the necessity to adopt the Algerian corporate governance code, and the work on making amendments of the content in order to be directed to different kind of enterprises.

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