Towards a Model for Corporate Governance for Algerian Companies

نحو نموذج موحد لحوكمة الشركات الجزائرية

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Abstract:
The implementation of corporate governance has become one of the most essential drivers of economic growth and sustainability hence, present study aims at introducing the different governance models, and extracting prior researches' testing results as well as analyzing and comparing between them to reach a suitable model that can be applied in the Algerian companies. For, the issue of governance garnered much interest from scholars as well as companies, yet it has been tremendously difficult to pin down one standard framework for the governance of all companies. Furthermore, the conducted research concludes with the necessity for a set of principles that go in accordance with the Algerian companies as well as adjusting the procedural definition to assess its efficiency in those companies.

Keywords: Governance, governance models, principles of governance, Algerian companies.

(JEL) Classification : H77, R48, R58, G30**.**

ملخص:

لقد عرفت حوكمة الشركات استخداما واسعا من قبل الدولة والمنظمات الدولية وأصبحت شرطا أساسيا جوهريا للنهوض بالتنمية الاقتصادية والاجتماعية لذلك تهدف الدراسة الحالية إلى التعمق في النماذج المختلفة التي تقوم عليها دراسة حوكمة الشركات، واستخلاص نتائج اختبارات هذه النماذج وعمل التحليل والمقارنات بين هذه النماذج من أجل التوصل إلى نموذج مناسب يمكن تطبيقه في الشركات الجزائرية، حيث لقي موضوع حوكمة الشركات اهتماما واسعا من قبل الباحثين والشركات لكن لم يتم التوصل إلى إطار موحد لحوكمة الشركات. حيث خلصت الدراسة إلى ضرورة توفر مجموعة من المبادئ الأساسية حسب واقع الشركات الجزائرية وضبط التعريف الإجرائي لقياس مدى فعاليتها في الشركات الجزائرية .

الكلمات المفتاحية: حوكمة الشركات، نماذج حوكمة الشركات، مبادئ حوكمة الشركات، الشركات الجزائرية.

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1. Introduction

Corporate governance is set on the principle of separating between ownership and management in public companies. Investors, on the one hand, aim to invest their funds in lucrative projects to gain profits, whereas on the other hand they lack proper experience and time for a constant inspection of the day-to-day business of the company. Moreover, and to ensure they obtain revenues for their investments, they assign experienced employees to take care of the daily administrative tasks. Hence, it was quintessential to provide a set of principles and mechanisms that would enhance success opportunities, avoid administrative failures, bankruptcy and financial obstacles, in addition to increase the market value of the company, ensure its growth and its survival in the business world.

Corporate governance as a subject of study has garnered increasing interest from scholars and companies. However, their efforts could not produce one standard model for governance because each one of them starts from different concerns. This is the reason why the present study aims to dissect the different models for corporate governance to consolidate those efforts in order to offer a model that answers to the needs of all interested parties in governance. For the study to accomplish the above mentioned purpose, some questions have been proposed:

- What are the main models for corporate governance?
- How can these models be compared and tested to reach a model that complements the scholars' efforts and offers a suitable model for corporate governance?
- What are the main corporate governance principles that make it possible to assess the efficiency of corporate governance in Algerian companies?

To answer these questions, the study will dive into a collection of models of corporate governance and collect test results for these models, analyze and compare between models in order to seek out a model that can be applied in developing countries in general, and in Algeria in particular.

2. Definition of Corporate Governance

The Committee on the Financial Aspect of Corporate Governance states, "Corporate governance is the system by which companies are directed and controlled." (***Bradbury, 1992***) whereas (***Shleifer and Vishny, 1997***) define it as the mechanisms which shareholders use to ensure a return for their investments.

(***Charreaux, 2005***) affirms that governance is a group of contracts that cater for the interests of the stakeholders and mitigate their losses. The International Finance Company as well, defines governance as "the structures and processes for the direction and control of companies." (***IFC, 2005***) In other words, corporate governance revolves around the relationship between the administration, the shareholders and the rest of the interested parties. This concept has been the core of the interest of many scholars; it has been described as a framework (***Gupta & al, 2009; Matteescu, 2015***), a general framework that includes the regulations, relations, systems, standards and the operations that help the practice of ownership and controlling the companies.

Through these definitions, it is clear that corporate governance is a system that helps for a better management and control of companies within the legislative framework of countries. This system has the purpose of protecting the interests of all involved parties in the same company. It includes a set of principles, operations, and mechanisms that ensure the "benefits" of everyone involved.

3. The Importance and the Benefits of Corporate Governance

Many scholars and executives directors consider governance as an essential tool for the progress of companies in the highly dynam modern times (Hussan, R. et Al., 2015). Furthermore, studies (***Sinan, 2008; Sulaimane, 2009; Farhan and Elmashadani, 2011; Hasseini et al., 2012***) show that the importance of corporate governance consists of assuring the management responsibilities, enhancing its accountability and improving financial and administrative practices. Governance, as well, guarantees integrity, transparency, precision and clarity in the financial statements issued by the company, in addition to accounting for shareholders and stakeholders. Therefore, it helps reducing the risks revolving around financial and administrative corruption that the company may face. Furthermore, governance improves the company's chances in reaching financial markets by helping them survive in an increasing competitive environment.

4. Determinants of Corporate Governance

For corporate governance to reach its fullest benefits, a set of principles and basics have to be present to regulate working conditions on all levels. Scholars argue that for a good corporate governance two sets of determinants need to be available, internal and external determinants (***Sulaimane, 2009; Ghader, 2012***).

The internal determinants according to (***Ayadi, 2013***) include the different basics and principals that determine the decision-making process and the power sharing within the company; between the board of directors and the executives directors where there exists no conflict of interest between these parties. These determinants consist of the Memorandum of Association, organizational structure, sound accounting system, financial statement systems, budgets systems, regulation and control systems and recruitment systems.

As for the external determinants of corporate governance, scholars (***Sulaimane, 2009; Ghader, 2012; Ayadi, 2013***) limit them to a set of factors representing the external environment where the company practices its activities and it has a direct influence on the internal determinants. These factors consist of the banking system, competitive markets, tax systems, legislative systems, the media, law of contracts and the corruption laws.

5. Principles of Corporate Governance

Considering the economic, political and cultural differences between countries, there is no unified model for implementing corporate governance that could provide the same results in all countries; this led to the emergence of many international organizations that took care of setting and applying principles for corporate governance. To mention a few of these organizations, there are the Cadbury Committee in the United Kingdom, Organization for Economic Co-operation and Development (OECD), Calpers, the Blue Ribbon Committee in the USA, the Brazilian Institute and the Turkish Institute that was established in 2002. (***Xie, B, W.N, and Al, 2003***).

The current study choses to tackle the principals of corporate governance using many sources; the first of which are those of the UK and the USA. The UK has been the first country among the European Union countries to pass a law that aims at encouraging the implementation of good practices in the management of companies. The USA has known governance practices in the past and developed it continuously over the last decades (***Jackson, 2010***). The other sources used include the principles set by the OECD, since it has a leading role in global governance towards a better quality for corporate governance (***Louis, 2007***). The Algerian Code of Corporate Governance, another source from a developing country.

Finally, the International Standardization Organization (ISO) standards because they provide a guide for all types of companies no matter its size or location. The study compares between these sources to reach a set of principles that suit companies in devolving countries and in Algeria in particular.

5.1 Principles of Corporate Governance in the UK

Many reports such as (***Cadbury Report, 1992***); (***Rutteman, 1993***); (***Greenbury, 1995***); (***Hampel,1998***); (***Turnbull Report,1999***), (***Smith Report, 2003***); (***Higgs,2003***); and many other that have been issued in the UK have contributed greatly in the shaping of the principles and mechanisms of governance. Afterwards, a set of main principles were issued in the UK Corporate Governance Code (***Financial Reporting Council, 2014***), which include the following elements: **leadership, effectiveness, accountability, remuneration and relations with shareholders** concerning a communication with the shareholders built on mutual understanding.

5.2 Principals of Corporate Governance in the USA

The American system has developed corporate governance in a continuous manner over the past few decades (***Jackson, 2010***). It was mainly a response to the financial crisis caused by the collapse of the biggest American businesses due to lack of corporate ethics (***Elmoataz, 2008***). Furthermore, an attempt to reduce administrative and financial corruption, the Sabanes-Oxley Act (2002) has been issued to help inactivate the role of non-executive board members and focus on the necessity of the majority being non-executives in addition to describing and setting the eligibility conditions. A clear definition of responsibilities within the board of directors or one of its committees.

(***Hamad, 2005***) in his study confirms that the most important principles of corporate governance implemented in the USA emphasize on the point that the majority of the members of the board are non-executives and independent. Furthermore, they make sure that the independent board members meet at least once a year without the presence of the executive members in order to assess and evaluate the latter’s performance. It also assures that the Board of directors needs to oversee many roles such as: review and direct the company’s strategy and its main business plans;

- Design a suitable risk policy.
- Estimated budgets, yearly business plans and set performance goals.

- Monitor execution and ensure supervising the effectiveness of governance practices.
- Apply modifications when needed in answer to any changes taking place in the business environment of the company.
- Establishing remuneration committee consisting of non-executive members that ensures reviewing and defining the basis that decide the remuneration and salaries of board members and main executives taking into consideration the differences in their status and the interests of the company and the shareholders on the long term.

5.3 Corporate Governance Principles of the OECD

The OECD, according to (***Louis,2007***) plays a major leading role in international governance with a purpose of enhancing the quality of corporate governance. The committee's principles, that are globally recognized, were established based on the principles and codes of a group of organizations such as the IMF, the World Bank and the Bank of International Settlements. These principles (***OECD, 2004***) consist of ensuring an effective governance framework, shareholders rights, ownership responsibilities, equitable treatment of shareholders, role of stakeholders in governance, transparency, and responsibilities of the board.

- **Effective corporate governance framework**: this principle helps enhance the transparency and effectiveness of markets in accordance with the legal system and clearly declaring shared responsibilities among the different authorities.
- **Shareholders rights and main ownership functions**: which helps protecting the rights of the shareholders, facilitates their dealings. Shareholders need to know the location and the timing and agenda of general meetings in addition to information pertinent to the issues that are being dealt with and any other information necessary.
- **Equitable treatment of shareholders:** that ensures protecting the interests of shareholders who should guarantee an effective redress for violation of their rights.
- **The role of stakeholders in corporate governance**: the governance framework needs to acknowledge the rights of stakeholders set by the law or through mutual agreements, encourage effective cooperation between companies and stakeholders

in creating wealth and jobs, and the sustainability of financially sound enterprises.(***Christopher, S, and Al, 2015***).

- **Disclosure and transparency:** this principle ensures the exact disclosure of timely financial information concerning the company, guarantees the financial situation, performance, ownership and management of the companies. Disclosure includes material elements of the companies based on international quality standards of accounting and both financial and non-financial disclosure, providing channels for the distribution of information, offering analysis or consulting from analysts, brokers and evaluation agencies when it comes to investment decisions.
- **Responsibilities of the Board of directors:** corporate governance framework has to ensure a strategic guide for the company, an effective supervision of management through the board and accountability of the board towards the companies and the shareholders. Furthermore, the board needs to have an objective and independent rule to execute practices dealing with matters of the company. In addition, the Board members need to have access to exact and appropriate information and in a specific time for them to accomplish their responsibilities. (***Marie Josée Roy, 2008***).

5.4 Corporate Governance Principle according to ISO 26000

(***ISO 26000, 2010***) provides a guide to many administrative issues such as corporate governance, which is considered as the system through which the company makes decisions and executes them according to its objectives. Moreover, the guide paid attention to the supervision of members and defined it as the activity taking place to create communication opportunities between the company and one of the members or more in order to provide a known basis for the decisions of the company. The guide encompasses the following principles:

- **Accountability**: for the company to account for its effects on the society and environment and to accept being examined and audited, and to respond to its ruling interests.
- **Transparency**: the company needs to disclose its policy, decisions and the activities it is responsible for including the eventual and known effects on the society and the environment, information have to be available and clear to understand and accessible by affected or potentially affected by the company.

- **Ethical behavior**: it is necessary for the company to implement the ethical standards that are suitable to its objective and its activities in accordance to the ISO 26000 standards. Encourage and enhance the compliance with its own ethical standards, define ethical standards based on its structure, employees, suppliers, contractors from owners and executives.
- **Respect the interests of stakeholders**: although the objectives of the company are limited to the interests of its owners, members, employees or other essential elements, yet there are other individuals and groups that have rights and demands that need to be taken into consideration. These individuals and groups represent the stakeholders in a company. Accordingly, the company has to acknowledge its stakeholders, their interest and respect them through recognizing the legal rights and legitimate interests of these parties. In addition, the company has to consider their vision as well.
- **Respect the rule of law**: the company necessitates an ample knowledge of the set laws, to answer to the legislative conditions for each jurisdiction the company act under; to make sure that its relations and activities fall under the correct and wanted legal framework.
- **Respect international ethical standards**: the company needs to respect the international ethical standards, compliance with the principle of the rule of law, where it has to review the nature of its activities, its relations within the legal framework, and to avoid illegal involvement in the activities of another company.
- **Respect human rights**: the company accepts the rights stated in the International Human Rights Charter.

Furthermore, the study conducted by (***Beckouche et al, 2018***) demonstrates the many large efforts made by the Algerian government to organize the domain of social responsibility of companies through issuing different regulations and policies that support the companies to assume their social responsibilities. To achieve this goal, the companies have to concentrate on the environment, protecting the consumer, labor law, and implementing ISO 26000 standards with a purpose of fighting corruption. These elements are quintessential drivers of corporate governance; hence, it is primordial for the Algerian government to further encourage companies to implement these regulations and policies.

5.5 Corporate Governance Principles in Algeria:

The Algerian country pays great attention to corporate governance, where it became an important national and strategic priority because of its importance for the post-oil phase and the transition towards a modern and competitive market economy through the use of corporate governance of Algerian companies. Corporate governance represents an operation that shows the company's voluntary and readiness to increment more transparency, to be strict in its management, administration, and control through the integration of the principle active parties on a larger scale in the management of the company. Therefore, these administrators and executives staff will act as executive members and not just agents. It is important to point that the corporate governance standards are directed towards all legal forms of companies and the most common form is the joint-stock company. (***Corporate governance Charter in Algeria,-GOAL- 2009***)

- **Leadership**: the company needs an effective leadership that aims to accomplish its strategy. In Algeria, this leadership represents the board of directors which occupies many important roles. Firstly, the board has the role of setting a strategy and its many details in accordance to the interest of the company. The second role consists of setting a business plan and updating it continuously while providing it with a general risk framework. Thirdly, define criteria to select members of the executive team and evaluation tools with transparency. Furthermore, the company has to offer the executive team salaries that do not conflict with its interest and those of its shareholders on the long term. It is important also to lay procedures in a written and transparent way. Another role consists of fixing any conflict of interest between executives, administrative members or shareholders in addition to design the proper mechanisms needed for correcting the deviations that may happen due to misuse of social benefits, power abuse and any embezzlement that may take place in deals with interested parties.
- **Control of the company**: The board members ensure the existence of mechanisms and devices that are appropriate for risk management and financial and operational control, also ones that respect the law and the applied rules. To mention the most important mechanisms used in control are:

- Ensuring the integrity of information systems and that of accounting especially.
- Guaranteeing a complete independence and non-bias while auditing.

- Plan a control system proper to the company using external audit.
- Design effective systems for reports, transparent assessment, and clear definitions of responsibilities.
- Provide procedures to regulate the activities of the board of directors.
- Control the company's practices concerning governance and apply the appropriate changes.
- Control information dissemination and communication channels between the company and external acting members.
- implement fairness and transparency and ethical criteria.

The Corporate Governance Center was established in 2010 to help Algerian companies comply with the guidelines of the governance guide and implement the best international governance practices. Furthermore, it helps raise public awareness of corporate governance and improve the democratic governance values including transparency, accountability, responsibility and taking into consideration the interests of stakeholders (Ghadban & Ben Brika, 2004)

6. Mechanisms of Corporate Governance

Corporate governance (***Charreaux, 2005***) is defined as a set of corporate mechanisms that have an impact on the perimeters considered by the managers during the decision making process. This helps limit the negative discretion authority (***Eustache & Wa, 2005***). Consequently, corporate governance focuses on implementing mechanisms suitable to design policies, control its execution, be aware of its impacts, in addition to supervising internal audit of the company's systems and its management in a way that benefits shareholders and partners as well. (***Ghlay, 2015***) states that there are two principal models for implementing corporate governance which are the Anglo-Saxon (Anglo-American) model and the German-Japanese model.

a. The Anglo-Saxon (Anglo-American) Model

It is a model implemented in both the USA and the UK. It is concentrated on pension funds, investment, the members. Furthermore, the owners vote for the board of directors according to specific criteria. In addition, the latter designates the executive directors while considering their experience, knowledge and field practices.

These directors are the ones to be responsible for the management of the companies. As for the market mechanism, it is the management that plays a major role in deciding acquisition matters. Basically, this model focuses on the external mechanisms of governance represented by the financial market (***Ghadban & Hamed, 2012***).

b. German Japanese model

This model brings together both the German and the Japanese experiences in implementing corporate governance. On the one hand, and according to the German experience, there is a concentration of ownership in banks. In other words, the participation of employees in the board of directors. The latter designates the board of executives, which has the responsibility of managing the companies in a way that gives higher authority to the banks rather than the companies. (***Akash Chattopadhyay, and all, 2018***). On the other hand, the Japanese experience, governance aims to spend great amounts of energy and efforts to gain the hearts and brains of people while both the bank and the shareholders designate the board of directors who elect the executive staff who in turn, choose the department heads. For this model, internal mechanisms of governance play a major role especially that of the other banks in affecting the decisions of the companies through their contributions in the capital of most companies (***Ghadban & Hamed, 2012***)

7. Corporate Governance in Algerian Based on the Previous Studies

The previous studies could not reach one model of corporate governance that could be implemented in all companies. (Hamada,2005) and (Sulaimane, 2009) explain that the reason is due to the economic, cultural, and political differences between countries. Based on the previous studies and the different models, it is clear that there exist a set of common principles. However, the ISO 26000 principles consisting of accountability, transparency, ethical behavior, stakeholders' rights, rule of law, international ethical standards, and human rights are the most encompassing set of principles and the most satisfying one when it comes to achieving the wanted results from governance. Corporate Governance Center in Algeria, according to (***Ghadban and Ben Brika, 2014***), encourages companies to implement the best international governance practices. Accordingly, the present study depends on the ISO 26000 standards because most of the

Algerian companies consider the creation of a proper communication between the company and its members, give great importance to the social factors of the employees and their environment due to the growing awareness of the stakeholders.

As for the end benefits that need to be achieved and can be considered as a measure for the success of corporate governance, studies (***Sinan, 2008; Sulaimane, 2009, Ferhane & Meshhadani, 2011; Hasseini et al, 2012***) show that the importance of corporate governance and its benefits lay in(***Kevin, D, Chen; Andy, Wa, 2016***):

- Ensuring integrity, transparency, clarity and exactitude of financial reports
- Reducing risks related to financial and administrative corruption.
- Accomplish spending effectiveness and linking spending to production.
- Avoid problems arising out of conflict of interests between the different parties.
- Improve the company’s performance and its economic value and its stock value.
- Increase the company’s chances in reaching financial markets.
- Increase benefit margins, competitiveness and create job opportunities for the society.

While tackling all elements pertaining to corporate governance such as its determinants, mechanisms and roles, the present study attempts to design a model to suggest for the assessment of corporate governance in Algerian companies (table 01). The work is based on the most important indicators and principles that can be found in most Algerian companies in accordance to the general legal and commercial frameworks.

Table (01): Procedural definition and indicators used for the assessment of Governance in Algerian companies

Variables	Procedural definition	Indicator
Disclosure and transparency	The degree of disclosure of financial and material information of the company. The provided channels that allow the user access to pertinent information on the right time, with a reasonable cost and in a fair way. Degree of disclosure of the company’s strategy. Degree of disclosure of interested parties, the criteria used to designate, select and choosing them. Design an effective control from an external auditor. The board directors’ ability to reach exact and appropriate information in a manner that allows them better execution of their responsibilities. Arrange and control information in a way that complies with the accounting and financial quality standards.	The indicators of this principle were set based on the standards of (ISO, 26000; OECD, 2004; Goal, 2009)
Responsibilities of the Board of Directors	Independence and objectivity of the board. The board’s ability to reach exact and appropriate information and on the right time. Degree of disclosure of number of session of the board	The indicators of this principle were set based on the standards of Code Corporate Governance, 2014; OECD,

	and the rate of attendance of each member. The possessed information systems used to enhance governance practices. An internal audit committee with a practical and written framework. Clarity of the strategy through the design of a business plan and updating it continuously with a risk policy framework. The selection criteria of the board of executives and transparent evaluating systems. Assessing the plans for replacing executive members. Integrating risk management mechanisms and devices. Place a control system specific to the company using external audit. Design an effective statement system and a transparent evaluating system.	2004; Goal, 2009)
Justice	The right to access complete information pertaining to the decision-making processes. Access to the most important changes touching the structures, arrangements and official documents of the companies. Distributing task according to the employees' competencies. Electing the board of directors' members. Forming an audit committee from outside board members.	The indicators of this principle were set based on the standards of (OECD, 2004; Goal, 2009)
Social responsibility	The contribution of companies in building and achieving important project for the society such as building bridges, roads and public utilities, etc. Committing to the constant development of the product quality for a better customer satisfaction. Using modern and developed techniques to protect the environment from negative effects due to its activity. Giving importance to customer complaints in order to fix them as soon as possible. Maintain a balance between the objectives of the company and those of the society, its values and the individual behaviors.	The indicators of this principle were set based on the standards of (ISO, 26000; OECD, 2004; Goal, 2009)
Stakeholders rights	Recognize the legal rights of the stakeholders. Offering stakeholders compensation in case of violation of their rights. Including the stakeholders' opinions while making decisions. Ensure free and timely access to information related to the company activity.	The indicators of this principle were set based on the standards of (OECD, 2004; Goal, 2009; Code Company Governance, 2014)
Discipline	Setting regulations for the use of passwords for each employee. Providing the shareholders with complete information about dates and locations of general meetings and on the right time. Employees' commitment to accomplishing their duties. Encouraging secrecy when dealings that enhances governance. Respecting the designed plans and ensuring their execution to reach the best results.	The indicators of this principle were set based on the standards of (OECD, 2004; Goal, 2009; Code Corporate Governance, 2014)

Source: Made by the researchers based on previous studies

8. Conclusion

The study tackled the concept of corporate governance and the benefits resulting from implementing its practices. While displaying the principles and mechanisms of corporate governance. The possibility of implementing governance principles and mechanisms of corporate governance, the possibility of implementing governance principles via the proper use of the different mechanisms. Furthermore, the study resulted in a model that can be implemented in the Algerian Companies to achieve the interested parties desired benefits for it selected the most important governance principles that could be used to assess the efficiency of governance in Algerian companies. The study concludes that an effective implementation of governance in Algerian companies needs the activation of the above-mentioned principles(**table 01**).

8.1 .Results:

The most important results reached in the current study consist of the procedural definition of the principles and indicators that are used for assessing the effectiveness of governance in Algerian company and the necessity fo depending on these principles with a flexibility to accommodate regulatory changes in the legal framework of Algerian companies.

8.2 .Recommendations:

In order to reach the sought after benefits from the previously mentioned results, the study recommends the following:

1. Using these principles and indicators to assess the governance of Algerian companies in statistical methods that have been conceived in the study to reach realistic results.
2. Test the model in companies that implement governance and unify efforts to activate the application of corporate governance in all Algerian companies.

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