

**THE IMPACT OF GOVERNANCE ON THE COMPETITIVENESS OF ALGERIAN COMPANIES**

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**Abstract:**

The study aims to find out the availability of the corporate governance in Algerian companies, and the impact on their competitiveness, Through the analysis of 220 questionnaire was distributed to executives at 03 economic companies, and the hypotheses of the study were tested using multiple linear regression model, where we regarded competitiveness as a dependent variable for some governance mechanisms .

Among the most important results obtained having a positive impact for each of the Board of Directors, disclosure and transparency on the competitiveness of the Algerian companies. This study has recommended that companies should give more importance on the governance's mechanisms, by selecting the administration's board's members according to their competence and independence, with the necessity of carrying out tasks that leads to the positive impact on the competitiveness, With the need for disclosure of company's information to all stakeholders in a transparent manner.

**Keywords:** **keywords:** Governance mechanisms, Competitive companies.

**Jel Classification Code:** B41, C10

**I-Introduction**

Since the two last decades, Algeria wanted to leave its closed economy's system, trough the transformation to the market economy's system, by joining the world trade organization, this last was the factor that increased the competition between our economic companies, and some of these companies are no longer able to face this competition using its traditional administrative methods.

Therefore, the main subject of this study is the public economic enterprises that need to improve its governance, by organizing relations, and determining roles between the administration's board, the owners and executive administration of the enterprise, with taking into account the interests of the stakeholders, in a climate of transparency and disclosure, this what leads enterprise to take the best advantage from its available resources, thus achieving its strategic goals by improving its competitive ability.

For that, this study tries to analyze and discuss the main question: **“how can we take advantage from the governance's mechanisms in order to improve the competitiveness of the Algerian enterprises”**.

We can divide that main question into these sub-questions:

(A)- What is the kind of the relationship between governance's mechanisms and enterprise's competitiveness?

(B)- How far the Algerian enterprises commits the governance's principles and what is their view to the concept of competitiveness?

(C)- Could the application of the governance's principles by the Algerian enterprises affect positively their competitiveness?

As pre-answers to these sub-questions, we can propose these hypotheses:

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(A)- There is a positive relationship between the enterprise's governance and its competitiveness.

(B)- There is a low level of commitment in the Algerian enterprises regarding the governance's principles, due to the lack of motives for this concept in our environment; also, most of our partners' views agree that the competitiveness can be achieved by the increase of enterprise's market share.

(C)- As what is known among researchers and professional organizations, the commitment of the governance's principles by the Algerian enterprises, can lead to a better competitiveness.

This study aims to achieve these goals:

(A)- The identification of the reality of governance's principles regarding the organizing laws of the Algerian enterprises' business in one side, and regarding the opinions of the executive directors working in these enterprises, in the other side.

(B)- Analyzing the concept of competitiveness, its measurement indicators, and the views of the Algerian enterprises concerning the achievement of the competitiveness.

(C)- Modeling and evaluating the impact of the governance's mechanisms as independent variables on the competitiveness of the Algerian enterprises as a dependent variable.

To achieve the study's goals, and examining its hypotheses, we divided it into two axes, the first consist of the theoretical relationship between governance and competitiveness, by showing different studies in this field, the reality of governance's principles regarding the organizing laws of the Algerian enterprises' business, and analyzing the concept of competitiveness and determining the indicators of its achievement. The second axis consist of measuring the reality of the governance's mechanisms by analyzing the opinions of the executive directors working in a sample of Algerian enterprises, and their views to the methods of the achievement of competitiveness, also the estimation and the examination of a multiple linear regression model, that allows to determine the nature of the impact of two governance's mechanisms (administration's board, transparency and disclosure), on the level of competitiveness in the Algerian enterprises.

### **II-Governance & enterprises' competitiveness literature review**

#### **II-1- Previous Studies:**

During our research, we found some studies having the same subject of research.

##### **II-1-1- Study of (Yifan, and al, 2004)<sup>(1)</sup>:**

This study discussed the relationship between the ownership and governance, and its effect on the competitiveness of 736 Chinese enterprises, using the descriptive and the statistical approaches.

The most important finding of the study is that the increase of amount of the private ownership of capital, and the improvement of the governance's environment, are two

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necessary factors for the enhancement of productivity and competitiveness, in most of Chinese enterprises.

The most important recommendation of the study is to focus on the future reforms of the ownership and governance, because focusing on only one element will cause negative consequences on the competitiveness of the Chinese enterprises.

**II-1-2- Study of (Ho, C.K . 2005)<sup>(2)</sup>:**

This study aimed to determine the nature of the relationship between the commitments of the good governance's practices and the enterprise's competitiveness, by analyzing the executive directors' opinions, working in 104 global organization distributed as follows: 49 Anglo-Saxon enterprises (includes enterprises from USA, UK, Canada, Australia), 28 enterprises from the Europe continent and 27 enterprises from Japan and Hong-Kong; also the study relied on additional data about governance, and some financial indicators, that measures the enterprise's competitiveness, taken from annual reports.

The most important finding of the study is that whenever the enterprises' sample commits strongly governance, their competitiveness will be better; also the relationship between governance and enterprise's competitiveness will be strong when we evaluate governance using all its dimensions instead of using only one dimension, or one property.

**II-1-3- Study of (Manoranjan, and al, 2008) <sup>(3)</sup>:**

This study tried to clarify the effects of governance's variables on the competitiveness of 1660 Indian companies, by using the descriptive and the statistical approaches.

The most important finding of the study is that there is a strong and positive interaction between the ownership and competitiveness's variables. In other way companies that have a big number of internal owners, will have a big productivity, in case of a strong competitiveness.

In this regard, the study recommends the necessity of decreasing on the financial companies' ownership about the companies' capital, this means avoiding the dependence on the long-term credits, in order to decrease the negative effects of the companies' productivity, and then its competitiveness.

From the above previous studies, we can see that they used different ways to study the impact of governance on the enterprise's competitiveness, but they all agreed with fact that governance has a positive impact on the competitiveness, and this is the hypothesis that we want to study in our Algerian enterprises' sample, this means driving the Algerian enterprises to a new idea that consist of : competitiveness can't be affected only by direct factors like market share, but by other indirect factors that will be studied in this article that are administration's board and the disclosure as two mechanisms of governance.

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## **II-2- Enterprises' governance in Algeria:**

In Algeria, the meaning of governance and what it requires in the company, was shown after the independence, whether about the control's methods on the company, or the relationship of the latter with the stakeholders, but the word governance was not known until the issuance of the charter of the good governance of small and medium companies in March 2009.

The Algerian business associations and unions have done initiatives to find the right ways to predispose the encouragement of the good governance in the business society, in order to attract the direct foreign investment. To lead that operation, stakeholders have created an enterprises' governance workgroup in 2007, that works side by side with the global companies' governance forum (GCGF), and the international finance corporation (IFC), in order to put a governance's framework of the Algerian companies, also a national conference was taken in place in 11 March 2009, the CARE association and the national commission of the companies' governance in Algeria have announced the issuance of the Algerian guide of the companies' governance. The creation of this guide was with the cooperation of the global companies' governance forum (GCGF), and the international finance corporation (IFC), the charter includes two parts and annexes as<sup>(4)</sup>:

- The first part shows the motivations that leads to the necessity of governance in processing problems that face the Algerian company.
- The second part addresses the standards basics that builds governance in companies, because in one side it shows the relations between the organizing authorities of the company (the general assembly, the administrative board and the executive directorate), and in the other side the relations of the companies with the other partners like: banks, financial institutions, suppliers...etc, moreover, the distribution of the good informations, and the methods of the ownership's transfer.
- The charter concludes with annexes gathering tools and operational advices that institutions could refer to it in order to practice the self-evaluation of its administrations, and resolving problems resulting from the conflict of interests in the company...etc.

## **II-3- Companies' competitiveness:**

(Porter, 1990) confirmed that if a company want to get a successful competitiveness, it must has an competitive advantages, whether in the form of lower costs than competitors, or distinctive products that worth additional prices, and these advantages must be developed with time, by providing a high quality products and high quality services, or producing more effectively, and that's what we can express as the raise of productivity.

In addition, (Macmillan, Mahan, 2010) expresses competitiveness as the ability of a company to defeat its competitors to buy products and services in a certain sector or a country.<sup>(5)</sup>

According to (Covin, 2010), competition means the advantage that belongs to a company and differs from the other competitors, resulting from giving a higher value to consumers, by lower costs, or offering more advantages that justifies the higher prices.<sup>(6)</sup>

From the above, we can say, that the competitiveness reflects the ability of a company in selling its products and services in the markets, by giving a best qualitative and quantitative value to consumers, than the other competitors do, thus the increase of its profitability, and conserving its place and its continuation in markets.

There is different indicators that measures the level of competitiveness of a company including: profitability, cost-made, productivity, market's share, the use of a high-developed technology and the quality as follows:

- **Profitability:** usually, it could be calculated by using the "Tobin's q" indicator, by estimating the ratio of : the market's value of the company's credit and capitals, on the change's cost, if the result is under one, we say that the company do not have competitiveness. In addition, we can use other indicators like: benefits of one share, the ratio of the profit's growth, and the marginal profit.

- **The cost-made:** the cost and the price efficiency is one of the principal standards of a company's competitiveness, so whenever the costs of a company are low, it will have a high competitiveness.<sup>(7)</sup>

- **The total productivity of the factors:** it could be calculated by devising outcomes on the incomes. The work hours means the principal entrance in order to calculate productivity, in the presence of other multiple factors: technology, capital's investments, used powers, administrative abilities...etc.

- **Market share:** the company's market share -comparing to the competitors- is one of the principal quantitative standards of the company's competitiveness, but the company's share must not be in the expense of the company's profitability, and this means the acquisition of the market share, and in the same time trying to conserve profitability's natural criterion in the industry at least.

- **Technology:** the company can improve its competitiveness using the modern technology, and applying the strategies of competitiveness, that leads to the development of products and new processes. This can decrease the cost of the company's activity, and increasing its quality.

- **Quality:** competitiveness can be inferred properly using qualitative indicators in addition to the previous quantitative standards, because the quality of products and services represents a principal indicator of the company's competitiveness.<sup>(8)</sup>

### III- Governance and companies' competitiveness empirical study:

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After showing previous studies about the relationship between governance and competitiveness, and making the literature review of both of them, it comes the step of the measurement of the impact of applying governance on the competitiveness in a sample of Algerian institutions, and this after presenting the empirical study's methodology.

In order to achieve the study's goals that are the clarification of the impact of applying governance on the company's competitiveness in Algerian companies. The study was headed into the dealing with one population that represents the Algerian economic companies, and this in order to gather all the data about the extent of the application of governance on these companies, by checking the two mechanisms: board of directors and the disclosure, but for the competitiveness, it was measured by four indicators: profitability, cost-made, the productivity of the factors of production and the market share.

A random sample has been taken from the study's population, reached three economic companies. The survey method was used, and in order to representing it and analyzing it, we used the statistical package for social science known as SPSS, the fourteenth version.

The survey consist of a first section that is about the personal data of the respondents (age, sex, experience), and a second section consist of expressions about governance (board of administration and disclosure), and others with the competitiveness measurement indicators, that the expressions includes specific answers : "Yes" or "No" or "Neutral". 240 surveys were distributed, and 220 were analyzed, and this as introduction to the study's model formulation that clarify the impact of the level of governance of the study's sample, on the level of competitiveness, as next: N.

### III-1- Study's Model:

In order to examine the study's hypotheses on the field, a linear regression model was formulated that has the sub-variables of governance (administration's board and disclosure) as independent variables, and the indicators of the measurement of competitiveness as dependent variables, and this by referring to the previous studies.

In order to know if there is a linear relationship between the model's variables, after the calculation of the estimated standard error that has a value of 1.55, we can conclude that the Multiple linear regression model will be appropriate for this relationship, it could take that form:

$$\hat{c} = f(\hat{G}) = f(\hat{A}, \hat{B}) = C_0 + \alpha\hat{A} + \beta\hat{B}$$

Where:

$\hat{c}$  is the estimated value of competitiveness, and it's a dependent variable of the sub-variables of governance.

$\hat{G}$  is governance.

$(\hat{A}, \hat{B})$  are independent variables, and represents: administration's board  $\hat{A}$ , and disclosure  $\hat{B}$ .

$C_0$  the level of competitiveness when administration's board and disclosure doesn't have the required specifications of governance.

$\alpha$  is the marginal propensity of the administration's board, and it means when its specifications are compatible with the governance's requirements by one property, the level of competitiveness will raise by a ratio of  $\alpha$ .

$\beta$  is the marginal propensity of disclosure, and it means when its specifications are compatible with the governance's requirements by one property, the level of competitiveness will raise by a ratio of  $\beta$ .

### III-2- Estimating and examining the study's model:

From table (01) we can formulate the estimated model, in addition of offering more analysis and explications as next:

The estimated model of the relationship between the sub-values of the administration's board and the financial competitiveness, takes the next form:

$$\hat{c} = f(\hat{G}) = f(\hat{A}, \hat{B}) = 42,15 + 0,52\hat{A} + 0,41\hat{B}$$

The primary value of competitiveness ( $\hat{c}$ ) in case of board of administration and disclosure doesn't have the specification required by good governance in company equal to 42.15 points, from the total of 27, representing a ratio of 42.15 %, so the rest ratio of 100 % it's 89.42 %, it represents the ratio of impact of the sub-values of governance on competitiveness.

-  $\alpha=0.52$ , means when the compatibility between the board of administration's specifications and the governance's requirements increases by one property (like choosing members by their independence and competence), supposing the stability of the disclosure's value, the competitiveness of the Algerian companies increases with the value of 56.1 points, in a total of 27 points, representing a ratio of 77.5 % of the total ratio of competitiveness.

-  $\beta=0.41$  means when the compatibility between the disclosure's specifications and the governance's requirements increases by one property, supposing the stability of the administration's board's values, the competitiveness of the Algerian companies increases with the value of 23.1 points, in a total of 27 points, representing a ratio of 55.4 % of the total ratio of competitiveness.

- The "T" test (test of student): from table (01) we conclude that all the sub-values of governance, were significant according to "T" test (in a level of significance:  $P \leq 0.10$ ), it represents a real explaining variables of competitiveness, thus the hypotheses of the study are right, this means that there is a positive proportionate relationship

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between the specifications of the administration's board and disclosure in one side, and the competitiveness in the other side.

- The determination's coefficient  $R^2$  reached 0.78, this means that the independent sub-values (administration's board and disclosure), could explain 78 % of the changes in the Algerian companies' competitiveness, and the rest 22% are other random factors.

- The "F" test (test of Fisher): the accompanied error of the statistical "F" reached 0.0001, and it's a value less than 0.05, this confirms the total acceptance of the model, and the explication power of the multiple linear regression model statistically.

### **IV- Results and recommendations:**

This study tries to make two reviews for the studied subject; the first review was about presenting some previous studies that have a relation with our subject of study, and referring to it, in order to understand the relationship between governance and companies' competitiveness. The second review was about the field study, by modeling and explaining the impact of two mechanisms: the administration's board and disclosure, on competitiveness of Algerian companies.

- By referring to the estimated model, and to the statistical evaluation, we maintained all the independent variables, as real factors affecting company's competitiveness, because the potential error accompanied (P-value), was under 5%.

- As an economic evaluation for the model, we could say that the previous indicators were really explaining the companies' competitiveness, due to the properties of the administration's board like: the methods of the set of its members (competence and independence), this will drive the board to make tasks in order to affect positively the companies' competitiveness, also the increase of the level of company's disclosure will lead to the decrease of the agency's costs and the increase of the company's price competition.

In order to improve the two governance's mechanisms that were studied, and to the increase of the level of company's competitiveness, we recommend:

A- The improvement of the composition of the administration's board of Algerian companies, by choosing members on their competence and their independence.

B- The administration's board should give more importance to the activities that has a relation with competitiveness like: understanding and examining the strategic plans, controlling performance and assuming responsibilities, the good use of informations by members in order to improve the Algerian companies.

C- Constructing sub-committees of the administration's board, like the market's committee, that make tasks linked to the improvement of the marketing function's performance, and the contribution on the increase of the competitiveness by the good pursuit of the marketing researches.

D- Algerian companies must give more importance on the increase of the amount and the nature of the disclosed informations, and that what's a good governance require,



like the method of determination of the administration's board members' rewards, and supporting all the parts that have a relation with company in order to access to it, with the same content.

### Appendices:

**Table (01): Cronbach's Alpha & Honesty Coefficient**

	Values	Sig T-test	R <sup>2</sup>	Sig F-test
C <sub>0</sub>	42.15	0001,0	0.78	0.0001
A	0.52	0007,0		
B	0.41	0004,0		

Source: SPSS results.

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