The importance of the independence of the board of directors in corporate governance: Descriptive study in joint-stock companies in Algeria.

أهمية استقلال مجلس الإدارة في إدارة الشركات: دراسة وصفية في الشركات المساهمة في الجزائر

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Abstract:

The financial scandals that have ensued in the world are the consequence of a lack of reliability of information and the existence of illegal behavior in regulations and directives. We can qualify these deviant behaviors for several reasons, One of these reasons, cumulating management function and control function of the CEO, which is a problem for the governance of the company. It is in this perspective that the objective of our article unfolds, which aims to show the importance of the independence of the board of directors in order to improve the effectiveness of control within the company. Also, we will try in our study to describe the degree of this characteristic in Algerian joint stock companies.

Keywords :*Board of directors- corporate governance-Algerian joint stock companies.*
Jel Classification Codes :G3-L2-M1

ملخص:

الأزمات المالية المتتالية التي ضربت العالم هي نتيجة وجود معلومات غير موثوقة و سلوكيات غير قانونية اتجاه اللوائح والتوجيهات.وعلى هذا يمكننا تصنيف هذه السلوكيات المنحرفة لعدة أسباب. أحد هذه الأسباب ، هو الجمع بين وظائف الإدارة والرقابة للرئيس المدير العام للشركة، مما يشكل مشكلة فيما يخص حوكمة الشركات. من خلال هذا يهدف هذا المقال إلى إظهار أهمية استقلالية مجلس الإدارة من أجل تحسين فعالية الرقابة داخل الشركة. كما سنحاول في دراستنا أن نقوم باكتشاف درجة هذه الإستقلالية في شركات المساهمة بالجزائر.

كلمات مفتاحية :مجلس الإدارة - حوكمة الشركات - شركات مساهمة جزائرية.

تصنيف G3- L2-M1 : JEL

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Introduction

In light of recent scandals such as: Enron, Andersen, Worldcom MCI, Vivendi, Global Crossing, Security Trust, Invesco, Putman, Elf and Crédit Lyonnais ... etc., which have followed one another around the world, the problem of corporate governance has taken on all its importance and in particular, through the mechanisms of control of the agents, in particular, of the leaders. Business transparency is then improved, by new standards framed by regulations that are intended to dissuade the risk of company management drifting, whose powers have sometimes exceeded the limits of reason.

To this end, several control mechanisms have been implemented in order to minimize the risks associated with corporate governance, among these mechanisms the board of directors, since it is considered to be the primary control mechanism exercised by the shareholders. It is the representative body of the shareholders within the company and is responsible for ensuring that their interests are aligned with the decisions made by the managers. But the problematic is the degree of effectiveness of this mechanism which has been the subject of permanent debates between shareholders and researchers and of reform proposals regarding its structure.

In this article we will try to show the importance of the independence of the board in order to improve its effectiveness. This Independence depends particularly on the structure of the board itself. For this we suggest two hypotheses, the first indicates that the cumulative functions of the CEO infects the proper functioning of the board of directors and the second indicates that the separation of the tasks of the chief executive officer and the president of the board of directors contributes to the effective functioning of the board of directors.

To test these hypotheses, we used a theoretical framework to analyze the impact of board characteristics on company performance on the one hand and we chose a descriptive method in our exploratory study to show whether our joint-stock companies in Algeria respect the characteristics of the independence of the board of directors for a good functioning of the board of directors.

1. Theoretical framework on the contribution of the board of directors within corporate governance

1.1. The role of the board of directors in corporate governance

The role of the board of directors is to improve the functioning of companies on the one hand and in the framework of the reflection on the governance of companies on the other hand(Charreaux, 2000). Indeed, (Conyon, M.J, Peck, S.I, 1998) consider the board of directors to be an organ with important prerogatives because it controls managerial decisions and represents the interests of shareholders. In other words, it is responsible for ensuring that the interests of the shareholders are in line with the decisions taken by the directors.(Bouaiss, K., Marsal, C., 2009).

In fact, the concept of the board of directors differs from researcher to researcher:

- (Mezghani, A., Ellouze, A., 2007) were inspired by the work of (Charreaux, G., Pitol-Belin, J., P., 1991) and(Zhara, S.A., Pearce, J.A., 1989) to evoke the following three conception

• The board of directors, as a place of control;

• The board of directors, as a mediating organ.

For (Fama, EF., 1980) and (Fama E.F., Jensen, M.C., 1983), the board of directors has two main tasks: evaluating and approving decisions on the one hand and controlling management on the other hand. For these agency theorists, the board of directors is seen as the apex of the company's internal control system. It is responsible for recruiting, dismissing the directors, and determining their remuneration(Ebondo Wa Mandzila, M., 2005, p. 28).

(Charreaux, G., 1994)indicates that the classification of types of the role of the board of directors of French companies is almost the same as that of American companies according to the study of Heidrick and Struggles. There are five types of this classification according to him:

1- The board of directors plays the role of protector, in other words, it takes care of the assets of the company in the long-term interest of the shareholders.
2- The board of directors plays the role of arbitration, it means that the board approves as required by law, the main decisions and guides the company in accordance with the statutes.
3- The role of the board of directors relies on planning where the board sets strategic objectives and controls, to ensure the stability of long-term growth, it approves fusions and acquisitions.
4- The board of directors evaluates, selects and replaces the officers.
5- The board of directors plans the short and long term growth of profits and capital gains.(Charreaux G., Pitol-Belin, J.P., 1991).

Concerning the supervisory board, agency theorists (Fama, E.F., Jensen, M.C., 1983) argue that the presence of independent directors on the board enhances the effectiveness of control. Thus, this criterion of independence is considered as a key element for better business performance. At the same time,(Lorsch J.W., 1989, p. 185)indicates that "the existence of a leader on the board different from the executive could significantly help administrators to prevent difficulties as well as to act in case of crisis".

At the same time, these independent administrators pay close attention to their reputation in order to hope for the renewal of their contract. To do this, they act in the interests of the company, by encouraging management to take measures compatible with maximizing shareholder wealth(Fields, M.A. Keys, P.Y., 2003).

Nevertheless, according to(Brickley, J.A., Coles, J.L., Jarrel, G., 1997), the form of the supervisory board has two types of agency costs: costs of controlling the President of the board behavior and information costs (costly and incomplete transfer of specific information between the manager and the President of the board)(Godard, L., 1998).

It is for this reason that the question of the independence of the board of directors and the performance of the company leads to contradictory conclusions which we will approach.

1.2. The components of the board of directors :

The board of directors is made up of multiple specialist committees.(Charreaux, G., Pitol-Belin, J.P., 1987) identified 18 types of committees in their national survey of the board of directors of French companies. But, in general companies adopt three types of committees: audit committees, nomination committees and remuneration committees:

1.2.1. The audit committee

The audit committee is defined by Sarbanes-Oxley law as an advisory and decision-making organ emanating from the board of directors(Bertin, E., 2007, p. 182).It is agreed that the audit committee plays an important role in corporate governance, and in particular, in improving the effectiveness of the board of directors. In addition, the effectiveness of the audit committee can be found in the audit reports which reduces the information asymmetry between management and other stakeholders(Li, J., Mangena, M., Pike, R., 2012).

The institution of the audit committee present according to(Ledouble, D., 1995, p. 24) the following components:

It affirms the importance of a company's accounts and internal control systems;

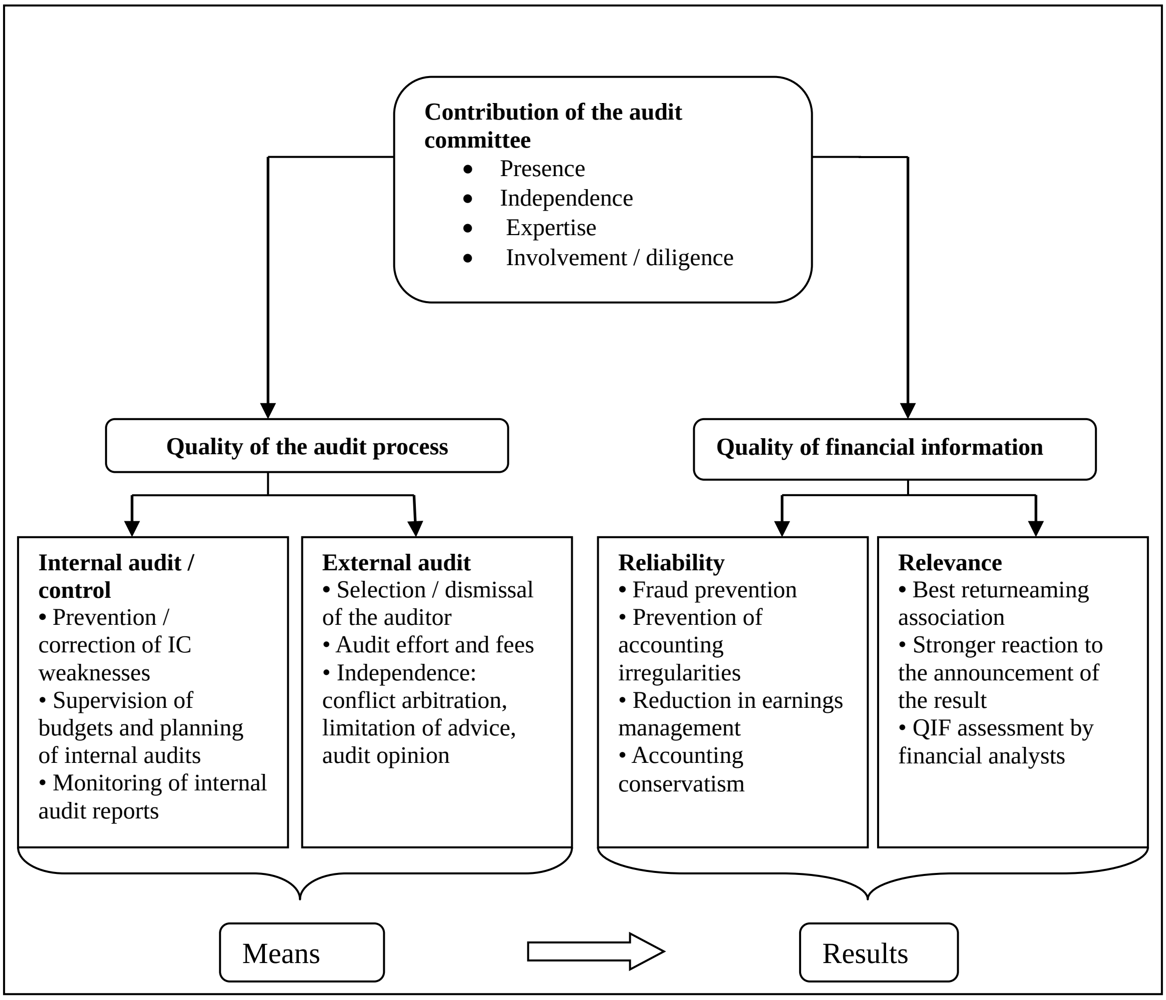
• It gives to an external eye the possibility of forming an opinion on the accounts;

• It creates an interposition between the auditor and the audited, it alleviates the pressure that the audited company can do to the auditors and puts auditors in a better position to avoid conflict.

In this regard, it is confirmed that the audit committee promotes coordination between external audit and internal audit. For this, it must operate in accordance with the main principles such as independence, expertise, diligence in order to realize its responsibilities successfully.

It is important to note that the independence of the audit committee is necessary for the fulfillment of its oversight responsibility delegated by the board of directors, in order to add value to the company. Indeed, an audit committee totally independent from the general management of the company means the independence of internal and external auditors(Mohiuddin, M.d., Karbhari, Y., 2010).

Fig.1. A framework for analyzing the contributions of the audit committee



Source : Piot, C., Kermiche, L., (2009), à quoi servent les comités d'audit ? Un regard sur la recherche empirique, comptabilité - contrôle - audit, P.13.

1.2.2. The remuneration committee

The compensation committee is responsible for proposing models and levels of compensation for corporate officers. (Naciri, A., Muse, P., 2010, p. 257).And therefore, its mission is to determine the criteria of the remuneration: of the management team level "n" and "n-1", of the administrators, of the members of the general assembly, of external experts in charge of one-off missions or permanent by the board of directors.

This committee must also adjust this remuneration to the performance of the company, on the one hand to retain the best members of the staff and on the other hand, to avoid the false incentives that sometimes lead to the bankruptcy of the company. However, in order to allow this committee to be effective, it must have a majority of outside administrators and avoid inside directors(Naciri, A., Muse, P., 2010).

In short, according to the code (AFEP/MEDEF, 2010, p. 21) The remuneration committee must enable the board of directors or supervisory board to be placed in the best possible conditions to determine all the remuneration and benefits of the executive directors, with the entire board of directors or supervisory board being responsible for decision.

1.2.3. The nomination or selection committee

The nomination committee is in charge of proposing to the board of directors the names of the candidates selected after having studied some criteria, such as the composition of the board, the search and assessment of possible candidates ... etc., After having based, of course , on a recruitment procedure, in order to be able to give an informed opinion to the board of directors. For this, the principles of corporate governance recommend the presence of a minimum of one third of external directors(Naciri, A., Muse, P., 2010, pp. 257-258). In this regard, on the basis of the reports of the nomination committee, the board of directors draws up its own report to be communicated to the general meeting (André Dumont, A.P., Renard, J.P., 2003, p. 64).

1.3.The impact of the characteristics of the board of directors on the performance of the company

Most studies show that the effectiveness of the role of the board has an impact on business performance. But, this effectiveness depends on the characteristics of the board of directors**(Boujenoui, A., Bozec, R., Zeghal, D., 2004)**. These characteristics most often relate to the composition and size of the board.

1.3.1. The components of the board of directors: Independence of the board of directors

1.3.1.1. The independence of the members of the board of directors

The literature divides board members into two parts: inside directors, those who are internal employees of the company, and outside administrators, those who have no business relationship with the company. But, the most widely discussed question regarding this distinction is: Do outside administrators increase the performance of the company?(Weisbach, M.S., Hermalin, B.E., 2003)

Indeed, the existence of external members within a board of directors constitutes an equally important condition for exercising real control over the directors, as long as the main interest of these external directors is to maintain a reputation as an expert. independent in the executive market. Therefore, they are, for this purpose, oriented to protect the interests of shareholders(Godard, L., Schatt, A., 2000, p. 7).

The high proportion of outside administrators favors the separation of decision-making tasks from those of control, which agency theory advocates(Fama E.F., Jensen, M.C., 1983). This reduces agency costs to a minimum and increases the effectiveness of management control(Vigliano, M.H., 2007, p. 9).

This means that the presence of outside, qualified and objective directors on a board of directors enhances its effectiveness. (Gillet-Monjarret, C., Martinez, I., 2012), insofar as these external members can criticize projects and confront the decisions of managers with opportunistic behaviors. Thus they have the opportunity to express impartial and fair viewpoints, which allow them to make objective judgments on the performance of the company(Zéghal, D.M., Marrakchi, C.S., Makni, F.Y., 2006). As a result, these members have the advantage of proposing decisions that promote the maximization of shareholders' wealth. (Matoussi, H., Mahfoudh, I., 2006).

Similarly, Daily, Johnson, Ellstrand and Dalton confirm that: "The preference for boards dominated by externals is primarily based on agency theory. Agency theory is built on the managerial notion of the separation of property from control, and as a feature of modern society it potentially leads to selfish actions by those in control. The agency theory is that effective boards will be composed of outside administrators. we believe that these administrators not related to management provide the company with superior benefits in terms of performance, due to their independence from the firm "(Vigliano, M.H., 2007).

As for internal administrators, studies are contradictory on this subject. On the one hand, (Weisbach, M.S., 1988) argues that internal administrators have more information about the company, which prompts them to provide value propositions for managers and for companies. On the other hand, several researchers, notably, (Fama, EF., 1980) and (Pfeffer, J., 1982), assert that internal administrators avoid criticizing their leaders by being afraid of risking their future in the company by losing their promotions or their positions. . It is therefore necessary to demonstrate that these internal administrators do not contribute to the effectiveness of the control of management decisions. This leads managers to select the majority of board members from inside the company so that they can limit control and make it less effective.(Ould Daoud Ellili, N., 2007).

We can say that the independence of external directors is a fundamental dimension of the board of directors, in order to have a higher level of objectivity in improving company performance(Boujenoui, A., Bozec, R., Zeghal, D., 2004, p. 99).

1.3.1.2. The independence of the board of directors president

The separation of the functions of the Board president from those of Chief Executive Officer is another strong point for the benefit of controlling the operation of the company (Boujenoui, A., Bozec, R., Zeghal, D., 2004, p. 100). This is for the simple reason that the double hat of Board president has a negative effect for the company, because the chairmanship of the board of directors ensured by the directors is aligned with the interests of the directors as those of the shareholders.(Chouchane, I., 2010).

However, in the literature on this subject, opinions diverge, some favor the combination of decision-making functions (managing director) and control (president of the board of directors), others denounce this duality.(Boujenoui, A., Bozec, R., Zeghal, D., 2004).

For the proponents of duality who mainly refer to the theory of "convergence", accumulation has more advantage for the company, it avoids miscommunication. As they consider that a single manager can have more flexibility to take the opportunities that may be offered to the company(Godard, L., Schatt, A., 2005, p. 14). Along the same lines, (Rechner, P. Dalton D., 1991),(Pi, L., Timme, S.G.,, 1993) and (Fosberg R.H., Nelson M.R., 1999), note that duality leads to better performance and allows for better strategic vision. (Ould Daoud Ellili, N., 2007).

And according to (Franks, J. R., Mayer, C., 1992)and (Brickley, J.A., Coles, J.L., Jarrel, G., 1997), the supervising committee would give managers a remarkable flexibility. This leads to two types of agency costs, which are the costs of controlling the behavior of the president and the costs of transferring information, particularly in the event that this specific information is incomplete. They also point out that the separation of decision-making and control functions can be contradictory and diminishes the manager's power.(Godard, L., 1998). In addition, according to (Brickley, J.A., Coles, J.L., Jarrel, G., 1997), duality facilitates decision-making in a firm with high growth opportunities. Indeed, few studies support this theoretical trend and agree that the combination of functions improves the performance of the company(Zéghal, D.M., Marrakchi, C.S., Makni, F.Y., 2006, p. 7).

On the other hand, as for other agency theorists ((Fama, E.F., Jensen, M.C., 1983),(Jensen M.C, 1993), the accumulation of function, control and decision does not allow the board to fully play its role. (Godard, L., SCHATT, A., 2005, p. 9). In other words, duality hinders the effectiveness of corporate governance control mechanisms (Mezghani, A., Ellouze, A., 2007, p. 5).

According to these authors, the separation of decision functions and control functions reduces agency costs and improves business performance. They point out that the highest level in the decision control structure (board of directors) should not be occupied at the same time by the highest level of decisions (the managers)(Ould Daoud Ellili, N., 2007), because we could not imagine that a president of the board of directors could take measures against his role as managing director, and ask, for example, for his dismissal! (Godard, L., Schatt, A., 2005, p. 14)

In fact, this duality can be the source of the risks of opportunism for shareholders and presents the most dangerous situation for the company. (Boujenoui, A., Bozec, R., Zeghal, D., 2004, p. 100), because in this case, the president of the board who is at the same time the general manager, has a strong capacity to influence the decisions of the board (Gillet, C., Martinez, I., 2010, p. 9).

1.3.1.3. The size of the board of directors

The Size is one of the essential characteristics of the board of directors which can influence its functioning and effectiveness (Sellami Mezghanni, B., 2011).To do this, several studies were carried out to study the impact of the size of the board of directors on the performance of the company. But the results of these studies are contradictory:

For who support the agency theory, the size of the board plays an important role in the effectiveness of the corporate governance system (Tchakoute Tchuigoua, H., 2012). According to (Jensen M.C, 1993), the reasonable and optimal size of a board of directors should not exceed eight members, in order to guarantee good coordination between members, better efficiency, faster strategic decision-making and reduced agency costs. In fact, a limited size increases the effectiveness of the control of the rulers. Jensen announces that a large board of directors is less efficient in its operation(Jensen M.C, 1993).

Similarly, (Lipton, M., Lorsh, J.W., 1992) report that a large board of directors makes communication more difficult and slows down decision-making. They think that the existence of a large number of Administrators increases conflicts between members and increases the existence of stowaways (Ginglinger, E., 2002). In addition, other researchers (Yermack, D., 1996) and (Hermalin, B., Weisbach, M, 2003) confirm that there is a negative relationship between board size and company performance.

On the other hand, (Adams, R. B., Mehran, H., 2002)did a study of 32 banks during the period 1986-1996, in order to test the impact of turnover size on company performance. Indeed, their results showed that large boards perform better in banks. They explain that the expansion of banking activity requires the coordination of boards of directors located in different regions(Ould Daoud Ellili, N., 2007).

Also, (Provan,J., 1980) and (Pearce J.A., Zahra S.A, 1992), have shown that there is a positive relationship between board size and business performance. In short, the limit of the size of the board of directors improves the performance of the company. Knowing that this board is at the top of the internal control system and the extreme consequence of the dysfunction of this system is the failure of the company(Ould Daoud Ellili, N., 2007). For this, we must properly supervise this mechanism to ensure the effectiveness of other means helping the board of directors.

2. Exploratory studies in Algerian joint-stock companies

In order to be able to demonstrate whether Algerian companies respect the characteristics of the board of directors, particularly in its independence, the choice of our sample was based on joint-stock companies, whether public or private, operating in several sectors of activity. (building, industry, energy, hydraulics, mechanics, electronics, textiles, etc.). This study took place in different regions of the country covering the wilayas of: Tlemcen, Ain Temouchent, Sidi bel abbess, Mascara, Oran, Mostaganem, Algiers, Bordj Bou Arreridj, Setif, Constantine, Annaba; As for the southern companies of the country which have their head office in Algiers, we approached their general management. This space field lasted six months in 2014.

We went to 83 companies in the different wilayas mentioned above to distribute the same survey in each company. These surveys were completed with our assistance to ensure the reliability of the answers and to conduct interviews by asking free and spontaneous questions to deepen and clarify the answers received. The duration of each interview was 30 minutes to an hour, depending on the availability of the interviewed person. The people targeted in our sample were senior executives and internal audit directors.

The main axes of our survey revolve around the following points:

- Description of corporate governance and the nature of the shareholders in the sample: (physical / moral);

- Description of the structure of the board of directors;

- Accumulation / Segregation of the functions of the Chief Executive Officer and the Chairman of the Board of Directors.

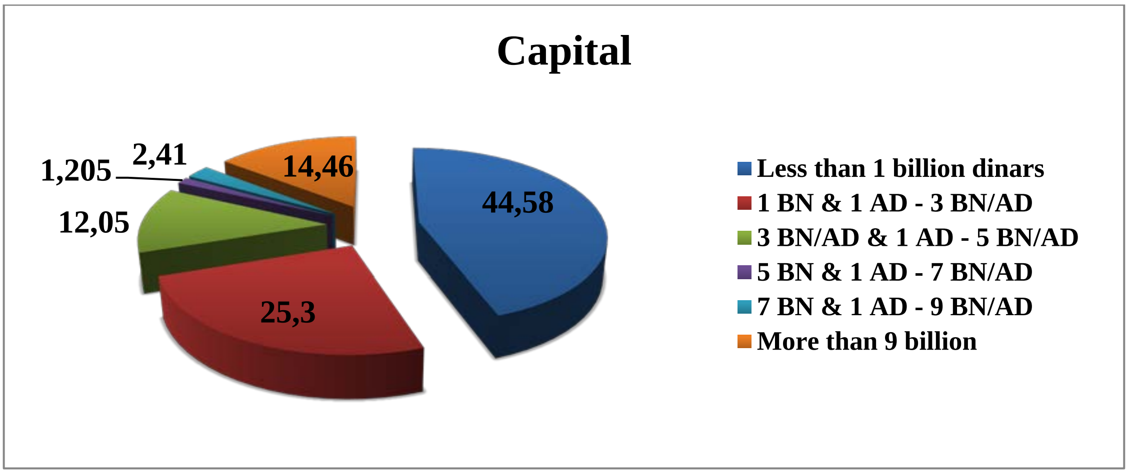
In order to be able to respond to our problem, we proceeded to a descriptive approach, the results was processed and analyzed using the SPSS software (statistical package for social sciences).

2.1. The characteristics of joint stock companies

Through the capital and the workforce indicated below, we will get an idea of the size of the joint stock companies taken in our study.

2.1.1. Per share companies capital

Fig. 2. Per share companies capital

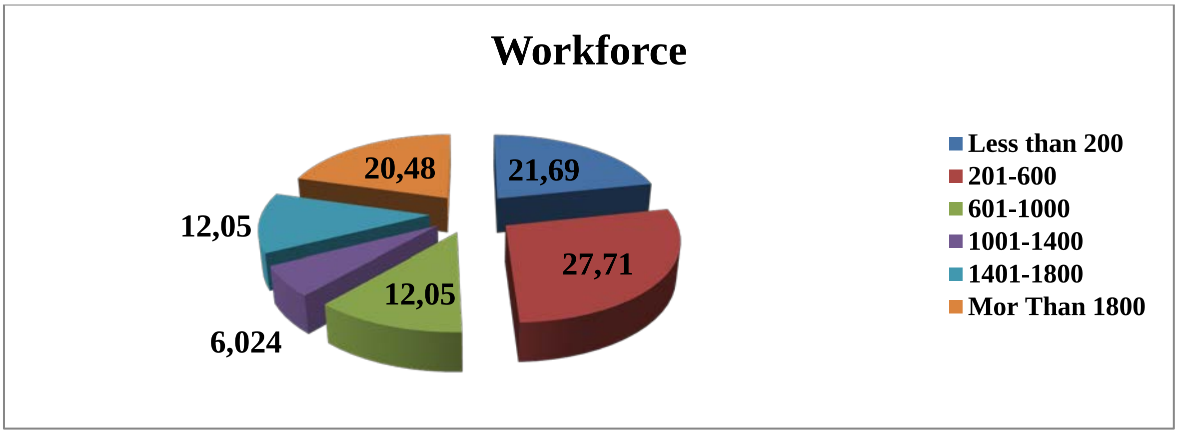


Source : Established by us

In this graph, we observe that 44.58% of companies have a capital of less than one billion Algerian dinars and which represents the highest number of companies. 25.30% of companies have a capital between one billion and 3 billion Algerian dinars. 12.05% of companies have capital between 3 and 5 billion Algerian dinars. 1.20% of companies have a capital between 5 and 7 billion dinars, 2.41% have a capital between 7 and 9 billion dinars. While we notice that 14.46% of companies have a capital of more than 9 billion dinars.

2.1.2. Workforce

Fig.3. Per share companies workforce



Source : Established by us

This graph represents the staffing ratio of the companies per share that we have studied: 21.69% of companies each have less than 200 employees, 27.71% are companies whose staff are between 201 and 600 employees. Then we notice that 12.05% of companies for 601 to 1000 employees, also 12.05% of companies for a workforce of 1401 to 1800 employees. 6.02% of companies have between 1001 and 1400 employees. Finally, there are 22.48% of companies which have more than 1800 employees and which generally represent groups.

These two characteristics show that we have targeted importante companies where the control mechanism, which is the board of directors, plays a key role.

2.2.Description of the governance structure of the sample company

2.2.1. Shareholders

The table below shows us that we studied 61 public joint stock companies, in which the State is the only shareholder, which represents 73.5% of our sample. In addition, we studied 22 private joint-stock companies which represent 26.5% of our sample, including 9 joint stock companies with Algerian capital, representing 10.8%, 1.2% joint stock companies with foreign capital (indeed we were able to contact to a single foreign company established in Algeria). 9 mixed joint stock companies with capital held by moral and physical persons including: 4 joint stock companies made up by the State and Algerian shareholders, representing 4.8%, and 5 joint stock companiesmade up by the State and foreign shareholders representing 6%. Finally, 3 joint stock companies whose capital is held by Algerian and foreign physical persons who represent 3.6% of the sample.

In fact, we have studied both private and public sectors in an attempt to analyze how the board of directors works in corporate governance, in both sectors. This gap in the choice of sample between the two sectors is justified by objective reasons: First, it is noted that the risks are more serious for moral shareholders than for physical shareholders. And secondly, joint stock companies in the private sector are very few compared to SARLs and EURLs.

The first observation of this analysis, will confirm that public companies are by far, better structured and clearly well organized than private sector companies. It appears that the systems and procedures and internal control, which provide the company with a certain comfort and security in terms of governance, are almost non-existent in private companies.

Table 1. Nature of the shareholders in the sample

Nature of companies	Public companies (State 100%)	Private companies			Mixed companies	
	61	**Foreign physical shareholders**	**Algerian physical shareholders**	**Algerian and foreign physical shareholders**	**State and foreign shareholders**	**Algerian State and shareholders**
N u		1	9	3	5	4
	61	**13**			**9**	
	83					

Source : Established by us

2.2.2. Composition of the Board of Directors in Algerian joint-stock companies

2.2.2.1. Nomination committee:

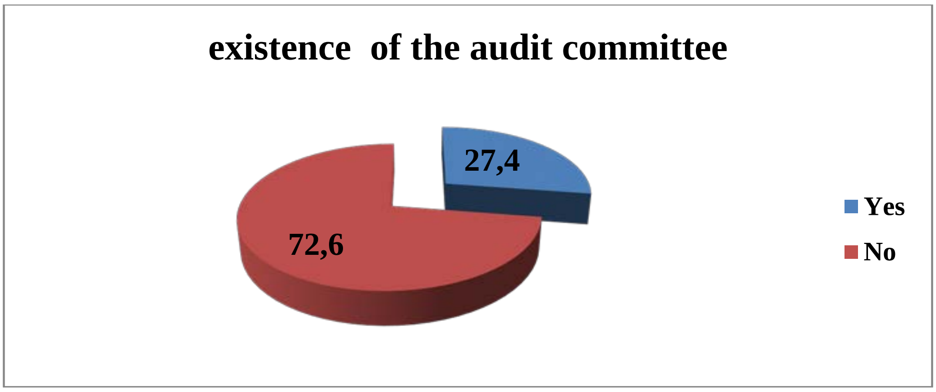
We point out that none of this companies have this nomination committee, they just follow the recruitment procedures at the level of the human resources department.

2.2.2.2. Remuneration committee

The remuneration committee is an important organ in the company since it is responsible, in particular, for setting up the criteria and measurement parameters as well as the objectives relating to the variable part of senior executives. Unfortunately, no Algerian joint stock company provides such an organ that could assist the board of directors to better control the variable part of senior executives. Only a foreign joint stock companybased in Algeria actually has this kind of committee in its organization.

2.2.2.3. Audit committee

Fig.4. Audit committee disposition

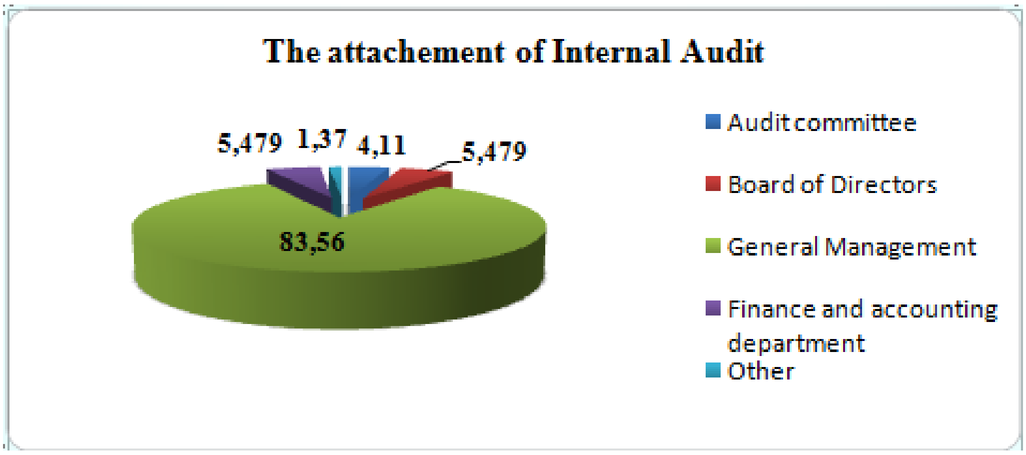


Source : Established by us

The presence of an audit committee strengthens the audit mission and contributes to the expansion of the field of investigation. However, only 27.40% of joint stock companies have an audit committee. This forces the internal audit function to be attached to various departments or to the general management of the company.

2.2.2.4. The positioning of the internal audit function

Fig.5. The positioning of the internal audit function



Source: Established by us

The question of the attachment of internal audit determines the level of independence of the internal auditor and to what extent can he exercise his missions in complete freedom. In our survey interpreted by this graph, we note that 4.11% of internal audit managers report to audit committees, 5.47% report to boards of directors. On the other hand, 83.56% are attached to the General management, 5.47% are attached to the Finance and Accounting department and 1.37% are attached to other departments in particular, the Human Resources department.

Concerning the internal audit managers who report to the General Management, most of them have informed us that the audit report must be approved by the General Manager and can be modified if necessary, before being transmitted to the Board of Directors.

On the other hand, very few internal audit managers say they make audit reports available to the auditees and to the General Manager, indicating that the content of these reports was the subject of disagreement, but at the same time, these reports are not a challenge to funds. Let's say that this attribution is much more about the personality of the internal auditor. It also appears that in general internal auditors are rarely invited to present their report to members of the board of directors.

For internal audit managers who report to the board of directors, it is true that they are more independent than the previous ones, and especially when the CBD does not combine the function of managing director. Otherwise, the situation for the auditor is relatively less comfortable.

Thus, to fully assume his role, the internal auditor must absolutely demonstrate competence and professionalism, but this is not enough, since he should use a fine intelligence to impose himself reasonably in cases of conflict of interests between shareholders and managers.

As for the other attachments of the internal audit function, in particular to the DFC, HRD, etc. auditors do not hide their dissatisfaction and admit that they frankly do not have the conviction that they can exercise their tasks freely.

For the moment, the audit committee, when it exists, remains the best way to guarantee the internal audit function its independence to carry out missions with ethics and objectivity. This is because the audit committee is mainly composed of members of the board of directors and who themselves are responsible for ensuring the implementation of the strategies decided by the shareholders.

The audit committee is then sovereign, it is indeed the Audit Committee which appoints the Internal Audit Director, gives its opinion on the hiring of auditors, fixes the salaries of auditors, and it is still the Audit Committee which validates the work programs, reports and any other work that may be assigned to internal auditors.

Generally, the audit committee meets at least 4 times a year, and at each meeting, the internal audit director is invited to present and explain the conclusions and recommendations resulting from the audit work carried out.

The Chairman of the Committee, with the assistance of the Internal Audit Director, shall present the summary of the final audit report to the Company's Board of Directors, which shall take the necessary resolutions if necessary.

2.3. The degree of independence of the board of directors in Algerian joint-stock companies

The purpose of the existence of the board of directors is to preserve the interests of the shareholders of the company, by controlling the directors. Also, if by chance the interests of the majority shareholders go against the others, they are the ones that the board of directors will privilege. Even if the minority of shareholders are more numerous. For this, this board must be completely independent from management, so that it can exercise solid control.

The purpose of the existence of the board of directors is to preserve the interests of the shareholders of the company, by exercising control over the directors. Also, if by chance the interests of the majority shareholders go against the others, this is what the board of directors will prioritize. Even if the minority of shareholders are more numerous. For this, this board must be completely independent from management, so that it can exercise solid control.

In this regard, we were interested in the issue of combining the functions of CEO and president of the Board of Directors. Because this combination of functions constitutes a major obstacle for the mission of controlling the board of directors

In this context, we found through interviews that the board of directors of private sector companies is different from the public sector company's ones.

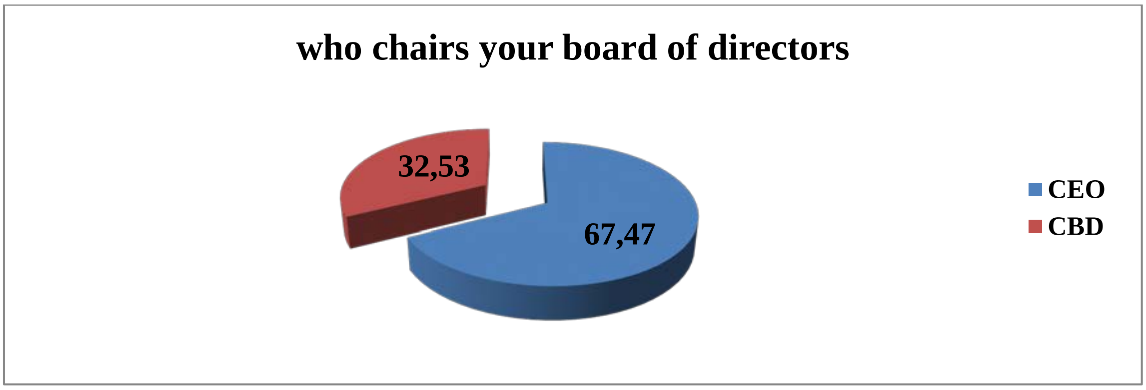
1- In the case of public joint stock companies, the majority of companies studied are directed by a president of the board of directors who is himself the chief executive officer (CEO). In other companies, we find a kind of two-headed governance where the functions of president of the board of directors and managing director are performed by two different people. The President of the board of directors' function is limited to chairing the board and reporting to the general meeting on the company's situation during OGMs or EGMs. (ordinary general meeting which meets to rule on the company's financial statements once a year and at the latest before June 30 of the year following the closing of the accounts, while the extraordinary general meeting or the general meeting in extraordinary session meets occasionally to rule on strategic decisions).

2- Regarding mixed joint stock companies (State and foreign shareholders), the members of the board of directors are Algerians and foreigners. But, the president of the board (PoB / CEO) is often a foreigner.
3- For joint-stock companies with capital held by foreigners, the members of the board of directors are foreigners to which are added two members representing the employees of the company. The president of the board of directors is generally a foreigner, he can in certain cases represent a major economic risk for the country, if the control is not sufficiently reinforced.

In these three forms of governance, management risks are higher for shareholders and other stakeholders, if control, in particular internal audit and external audit, do not meet the objectives assigned to them.

4- As for the Algerian physical shareholders in our sample, we observed that their board of directors is almost made up of members of the same family, where we generally find, the president of the board of directors (PoB) is himself general manager and majority shareholder. This seems to strengthen control within the company, as opportunistic behavior is quickly identified and contained.

Fig.6. President of board of directors



Source: Established by us

Finally, overall 67.47% of companies have a board of directors chaired by a CEO, the others are headed by a CEO and a President of the board of directors. This means that there is no separation of management and control within the majority of the joint stock companies in our sample.

- **Legal framework specific to the President and CEO**

Neither the Civil Code, the Commercial Code, nor the Labor Code specifically deal with the status of the Chief Executive Officer. It is both:

- Administrator ;

- Elected President of the Board of Directors;

- General manager.

Article 635 Legislative Decree n ° 93 - 08 of April 25, 1993 of the Commercial Code, dealing with the remuneration of the President and Chief Executive Officer, which states: "The board of directors elects a President from among its members who is, a natural person. It determines his remuneration"

On this, we notice that even the Algerian legal framework combines the decision-making and control functions of the CEO.

Conclusion

The organizational and technical development of companies at the present time encourages ever greater performance efforts. But this is not enough, however, without a mastery of governance and management, the effectiveness of which can only be acquired by the implementation and the conjunction of several control mechanisms of the business environment.

In other words, the operation of the company, whether strategic or operational, must necessarily and constantly be monitored through a board of directors, audit and remuneration committees and regular audits.

And despite all these controls, it sometimes happens that there are dysfunctions at the level of different functions of the company, which led us to address the problem of the structure of the board of directors and the degree of its independence.

Our survey results show that the sample boards of directors do not have a nomination committee. In addition, the majority of these companies have neither an audit committee which can enhance the efficiency of the internal audit function, nor a remuneration committee which can help the auditors to control the internal audit function to control the remuneration of senior executives.

In addition, the results obtained also show that most joint-stock companies have boards of directors chaired by CEOs, which means that the CEO combines the function of decision-making with that of control.

The interviews we carried out enabled us to confirm that public joint-stock companies are more exposed to risk in terms of control, as their board of director's president generally combines management and control functions.

In short, these results show that the absence of committees within the board of directors reduces the inefficiency of the board and the cumulative functions of the president of the board and chief executive officer have a negative influence on the effectiveness of the control of the directors and generates gaps in terms of the company's internal control system. This conclusion confirms our first hypothesis.

Therefore, the segregation of the duties of the board of directors' president and the chief executive officer contributes to the proper functioning of the board of directors and to a good internal control efficiency within corporate governance, this also confirms our second hypothesis.

On this, it is recommended that the company strengthen the structure of the board of directors through the various committees which are essential to the effectiveness of this mechanism. Also, every company should know the importance of the independence of the President of the board of directors in order to achieve its corporate objectives.

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